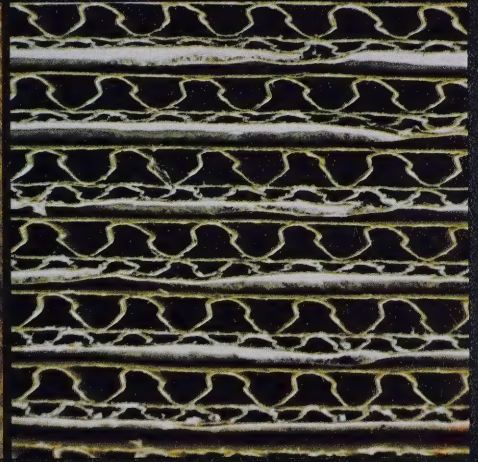
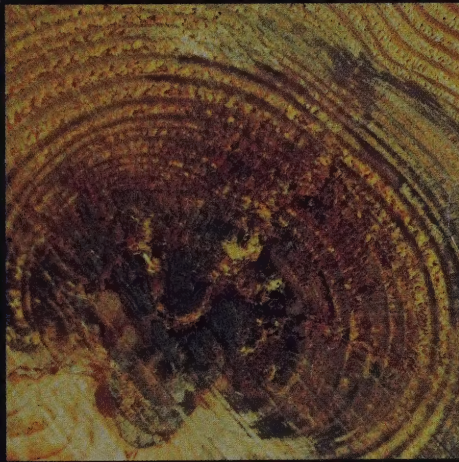
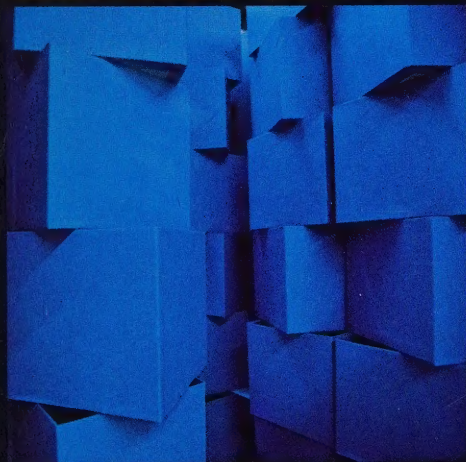
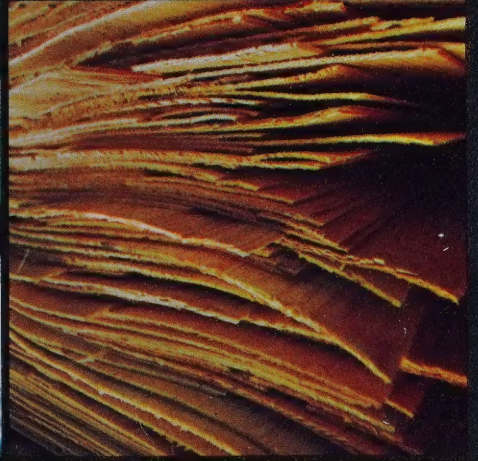
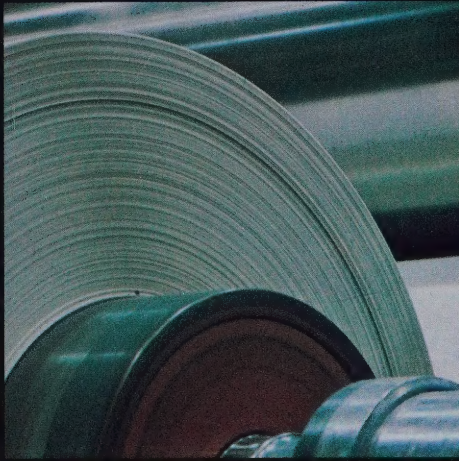
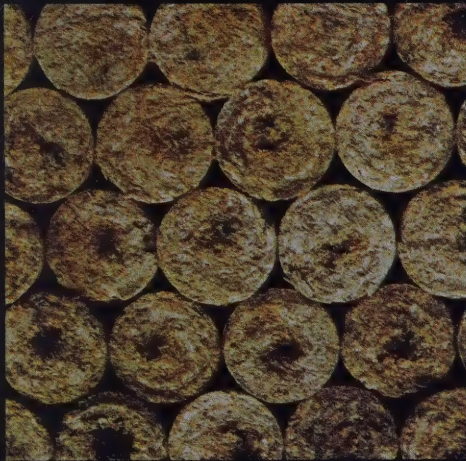


Annual Report 1973



Summary of Significant Facts

	Year Ended December 31 1973	Year Ended December 31 1972*
EARNINGS		
Sales and other income		
Sales of products and services.....	\$1,215,190,651	\$964,189,597
Other income.....	4,051,064	2,305,895
	<u>\$1,219,241,715</u>	<u>\$966,495,492</u>
Earnings before income taxes, equity in earnings of partly-owned companies, minority interests and extraordinary items.....	\$ 144,520,996	\$ 66,382,158
Net earnings after income taxes, equity in earnings of partly-owned companies, minority interests and extraordinary items		
Amount.....	\$ 81,752,437	\$ 40,184,186
Basic net earnings per share		
Before extraordinary items.....	\$ 3.90	\$ 1.80
After extraordinary items.....	\$ 3.90	\$ 1.92
Fully diluted net earnings per share		
Before extraordinary items.....	\$ 3.85	\$ 1.77
After extraordinary items.....	\$ 3.85	\$ 1.89
Charge for		
Depreciation.....	\$ 41,576,757	\$ 39,266,783
Depletion.....	5,946,302	5,200,574
Amortization of logging roads.....	7,953,222	5,357,673
	<u>\$ 55,476,281</u>	<u>\$ 49,825,030</u>
Earnings retained in business at end of year.....	\$ 302,891,757	\$247,353,533
BASIC CASH FLOW		
Amount.....	\$ 141,782,008	\$ 90,933,630
Per share.....	\$ 6.77	\$ 4.36
PROPERTY, PLANT AND EQUIPMENT**		
Additions.....	\$ 89,515,486	\$ 63,461,894
Proceeds on disposal.....	(2,019,803)	(2,700,427)
Profit (loss) on disposal.....	(724,730)	103,281
Net additions.....	<u>\$ 86,770,953</u>	<u>\$ 60,864,748</u>
PERCENTAGE OF LONG TERM DEBT TO TOTAL CAPITAL EMPLOYED....	29.7	33.5
DIVIDENDS		
Cash — Ordinary shares		
Amount.....	\$ 26,214,213	\$ 20,876,385
Per share.....	\$ 1.25	\$ 1.00
Cash — Preference shares		
Amount.....	\$ —	\$ 77,889
Per share.....	\$ —	\$.03
EMPLOYEES		
Wages, salaries and employee benefits.....	\$ 290,776,357	\$231,404,789
Number at end of year.....	24,478	23,136
SHAREHOLDERS		
Number at end of year***.....	17,120	19,125

*Certain figures have been restated to effect the equity method of accounting for partly-owned companies.

**Including property, plant and equipment of subsidiaries acquired during the year.

***Excluding holders of share warrants.

Contents

2	Directors' Report to the Shareholders
22	Historical Review
24	Consolidated Financial Statements
36	Operations, Sales Offices and Distribution Centres
INSIDE BACK	Directors and Officers

The photographs in this report illustrate the infinite range of colours, textures and forms assumed by wood fibres in their various stages of conversion from raw material to end products.



Dimension lumber, a prime component of residential construction.

Directors' Report to the Shareholders

Wood and wood fibre products have an assured place in world markets for the foreseeable future, based on increased population and growth of national economies. There will be, however, fluctuations in demand caused by short term economic cycles. These will inevitably be reflected in the operations of companies such as MacMillan Bloedel which in 1973 enjoyed an encouraging year, in contrast to the very low returns experienced in 1970 and 1971.

The net earnings of the Company during 1973 amounted to \$81,752,437 compared with \$40,184,186 for 1972. These earnings represented \$3.90 and \$1.92 per share before dilution (\$3.85 and \$1.89 on a fully diluted basis) for 1973 and 1972 respectively. The higher level of profits in 1973 raised the average earnings per share for the past five years to \$1.99 (before any dilution) and resulted in an average 6.5% return on total capital employed being achieved in that period.

During 1973, world-wide demand for most forest industry products almost matched available production. Prices generally rose and the Company's lumber and plywood operations, in particular, had a very successful year. Pulp, paper, newsprint and packaging activities also made significant contributions to the year's results.

In total, the Company's sales and other income for 1973 amounted to \$1,219,241,715 compared with \$966,495,492 in 1972. These figures reflect the world-wide activities of MacMillan Bloedel but it should be noted that, notwithstanding the foreign investments which the Company has made in recent years, the majority of MacMillan Bloedel's physical assets and employees are in British Columbia. Furthermore, substantial capital expenditures continue to be made in this province. In 1973 the Company spent over \$51 million on logging road construction and on capital programmes of many kinds at its various operations in British Columbia. In addition, construction began in 1973 on a new sawmill at Harmac and major improvement programmes were commenced at the Port Alberni and Powell River newsprint mills. The estimated capital cost of these projects exceeds \$34 million.

MacMillan Bloedel's operations in British Columbia make an important contribution to the province's economy in the form of taxes of many kinds, in wages and salaries paid to nearly 17 thousand British Columbia employees and in the form of large expenditures on capital projects.

With respect to the Company's foreign investments, approximately \$29 million of the consolidated net earnings for 1973 were derived from wholly or partly-owned operations carried on outside Canada. The comparable figure in 1972 was just under \$15 million. These operations represent activities which the Company could not conduct economically in Canada either because raw materials would not be available or because of tariff, freight or market considerations.

A number of important advantages accrue from the investments made outside Canada:

- reliable markets are secured for products manufactured by MacMillan Bloedel in British Columbia;
- domestic product lines are complemented by goods that cannot be made economically here;
- effects of economic cycles are reduced by geographic and product diversification.

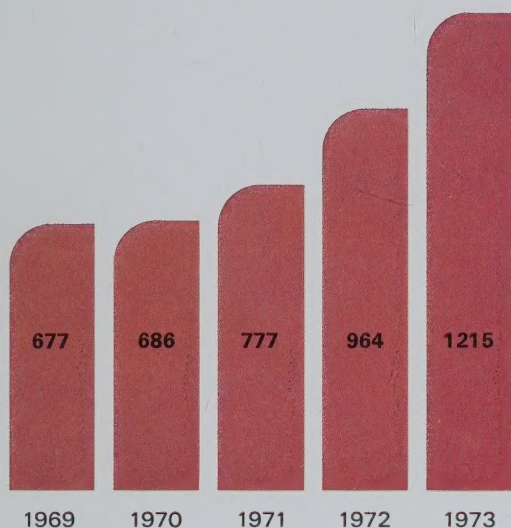
These advantages result in steadier employment in the Company's British Columbia operations, in more taxes being paid to the governments of Canada and British Columbia and in increased amounts of foreign exchange returnable to Canada.

For these reasons MacMillan Bloedel made a number of further investments outside Canada during 1973, the details of which are described on pages 14 and 15 of this report.

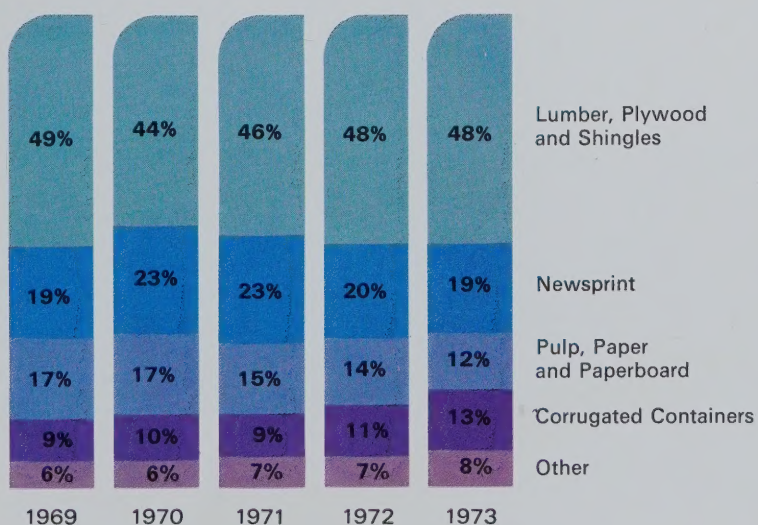
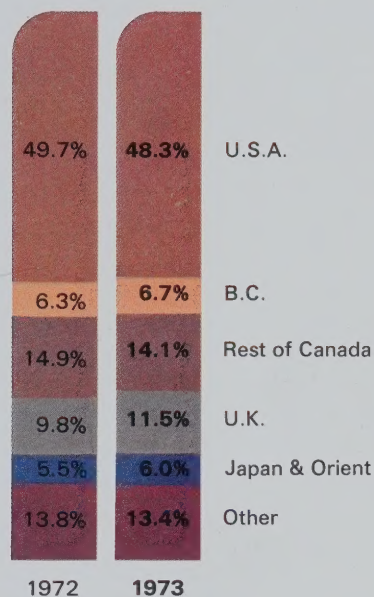
More detailed remarks about the Company's operations follow:

1. Sales of Products and Services

MILLIONS OF DOLLARS



2. Sales of Products by Markets



	1972	1973
Purchases of Goods, Supplies and Services...	62.0%	57.8%
Wages, Salaries and Employee Benefits.....	23.8	23.7
Federal, Provincial, State and Municipal Direct Taxes.....	5.2	7.2
Depreciation, Depletion and Amortization.....	5.1	4.5
Minority Interests in Subsidiaries.....	—	.2
Dividends.....	2.2	2.1
Earnings Retained.....	1.7	4.5
	<u>100.0%</u>	<u>100.0%</u>

Note: Total income includes equity in earnings of partly-owned companies but excludes extraordinary items.

3. Contribution to Sales by Products

4. Distribution of Total Income

Resources

During 1973, MacMillan Bloedel continued its programme to improve the quality of standing timber under its management and in British Columbia approximately 15,000 acres of timberland were replanted, mainly with Douglas fir, hemlock and spruce, while an additional 17,000 acres were treated to improve growth.

Attention has been focussed on more effective and economic methods of commercial thinning to improve rates of forest growth. Light cable-yarding systems appear to have some potential in this regard and are being investigated. Other efforts to shorten the growth cycle include continued experimentation in large-scale aerial fertilization and the silvicultural research programme. The latter involves basic research into the improvement of growth and utilization of immature forests through stocking control, genetics, tree nutrition, soil classification and more accurate methods of predicting future yields.

The black-headed budworm infestation, mentioned in previous years, has subsided in the southern part of Vancouver Island and the damaged stands have been assigned priority in cutting schedules.

The infestation on northern Vancouver Island persisted, however, and it was necessary to spray 17,600 acres to prevent serious damage. Although the insecticide used is one of the safest known, stringent safeguards were used and spraying was restricted to severely affected areas.

During the past year continued progress was made toward implementation of the Company's land use policy in British Columbia particularly in expanding the opportunities for public access to and use of the forest. Special provisions have been made for the protection of natural habitat and recreational values in operating areas. All forest lands managed by the Company are now open to the public at all times except where there are active operations or during periods of significant fire risk.

Logging

The mild winter of early 1973 permitted high production levels in the first half of the year and helped to alleviate the critically low log inventory position in British Columbia. The Company's log production in this province during 1973 was 325 million cubic feet, up 25% over 1972 levels and substantial progress was made toward restoring log inventories to desired levels.

Effective productive capacity was reduced somewhat due to fire weather closures in August and September, and heavy snow conditions in November. These disruptions, combined with rising costs of supplies and services, resulted in sharply increased logging costs. Crown stumpage in British Columbia also rose sharply in 1973 to \$18.64 per cunit as compared to \$8.33 per cunit in 1972.

Recovery of smaller logs from the forest floor is being improved. In periods of strong markets these logs can be used economically as raw material for the sawmills, chipping mills and for two new portable sawmills. To reduce water debris from booming operations, dry-land log sorting and bundling are being expanded.

Building Materials

Sales revenues from the Company's building materials operations increased in 1973 by approximately 29% over 1972 levels as demand for lumber and other building materials remained strong for most of the year. This reflected a high pace of construction activity which prevailed in both Canada and the United States until close to the end of the year. The contracts under which MacMillan Bloedel sells lumber, plywood and shingles manufactured by British Columbia Forest Products Limited and other Canadian companies, continued to operate satisfactorily.

Construction was started on a new distribution warehouse in Vancouver and three additional warehouses are planned for completion before the end of 1974 at Thunder Bay and Moncton in Canada and Odenton in the United States. This will bring to 40 the number of distribution centres operated throughout Canada and the United States by MacMillan Bloedel Building Materials and Blanchard Lumber.

Pollution abatement programs were continued during 1973 and particular attention was paid to improved combustion of hog fuel in the power boilers to reduce fly ash emissions and improve energy utilization. Plant improvements were also made to reduce noise, control dust emission and limit contaminants in effluents from manufacturing operations.

The production and market experience of individual products in 1973 may be summarized as follows:

Lumber Markets were extremely strong during 1973 with the result that price levels for most grades rose significantly. While some decline took place towards the end of the year, prices continue to exceed the levels experienced in recent years. Lumber production during 1973 was 2% higher than in 1972 while shipments remained approximately the same.

In the light of strong worldwide demand for lumber products, marketing strategy in 1973 sought to expand the Company's position in international markets. During the last half of the year, as prospects of a slowdown in the United States economy appeared, lumber shipments were increased to continental Europe, Australia, Japan and the United Kingdom. Order files in these overseas markets have been extended well into 1974 at firm prices.

Freshly sawn timbers present a pattern of textures and colour.



Building Materials *(Continued)*

A new sawmill located on Lulu Island, near New Westminster, was constructed during the year and began operating in February 1974. This sawmill has an annual productive capacity of 12.6 million FBM and will be capable of processing the low quality logs previously left on the forest floor.

Lumber Specialties A secondary manufacturing operation is carried on by the Company's lumber specialty plant in New Westminster in which a variety of consumer products are made. The strong demand for manufactured lumber products during 1973 created a favourable marketing opportunity for these product lines.

The expansion of capacity which was undertaken in 1972 permitted MacMillan Bloedel to approximately double shipments of lumber specialties during the year. The Company considers it desirable to extend operations beyond primary manufacturing wherever possible. In the light of the encouraging results to date, and the positive outlook for these products, it has been decided to construct secondary manufacturing facilities at Port Alberni and at the Chemainus sawmill. These additions will effectively double the productive capacity for lumber specialties in 1974.

Shingles The Red Band Shingle Mill, initially closed by a work stoppage in June 1972, remained idle during 1973. The loss of customers which resulted from the 18 month strike, combined with the age and deteriorating condition of the mill, rendered the plant uneconomical to operate and in December 1973 the mill was permanently shut down.

Shingle production continued in 1973 at Port Alberni where 157,340 squares were produced.

Plywood Demand and prices for plywood in Canada were very strong throughout the first five months of 1973. Some price weakening occurred during the third quarter as a result of the threat of increased imports from the United States but, with the gradual strengthening of the American market and a firm domestic market, Canadian prices recovered.

In overseas markets demand and prices for Canadian plywood increased steadily throughout the year and exports of SYLVAPLY* plywood from British Columbia grew to 37% of total shipments as compared to 34% in 1972.

Total shipments of plywood increased by 6% primarily due to the acquisition of Multiply Plywoods Limited in Nipigon, Ontario, as well as increased production from one of the companies for which MacMillan Bloedel acts as sales agent.

ASPENITE* Panels Market demand for ASPENITE panels was generally strong throughout 1973 although some temporary weakness was experienced during the third quarter. The plant at Hudson Bay, Saskatchewan,

operated at close to its capacity of 148 million square feet ($\frac{3}{8}$ " basis) and shipments were 7% over the total for 1972. Ninety-three percent of the volume was consumed in Canada with the balance going mainly to the midwestern United States.

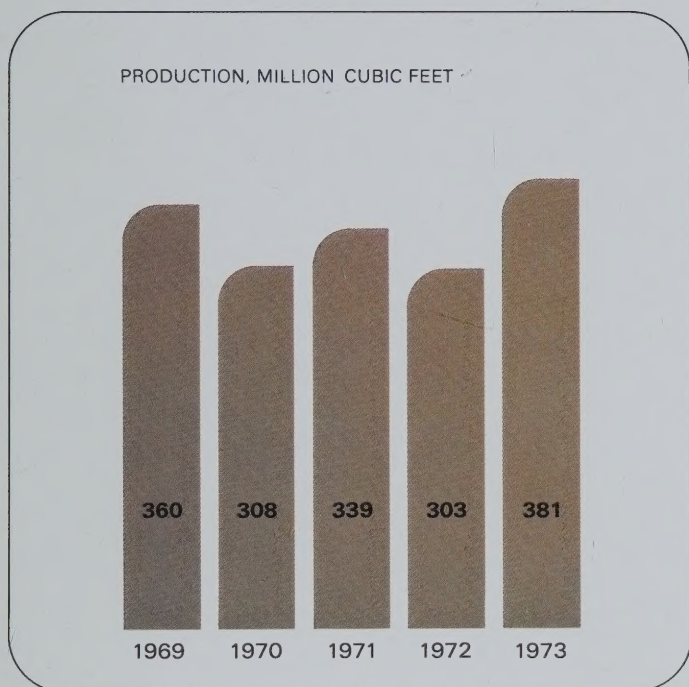
A new plant which is being constructed at Thunder Bay, Ontario, will have a productive capacity of 108 million square feet ($\frac{3}{8}$ " basis) and is expected to commence operations in 1974.

k3* Particleboard and Specialty Boards The k3 particleboard plant was enjoying a most successful year until closed down by labour action in August. Normal operations resumed on December 17, 1973. The demand for particleboard in Canada was extremely strong throughout 1973 and prices improved accordingly. U.S. imports, however, continue to supply a significant part of the domestic market.

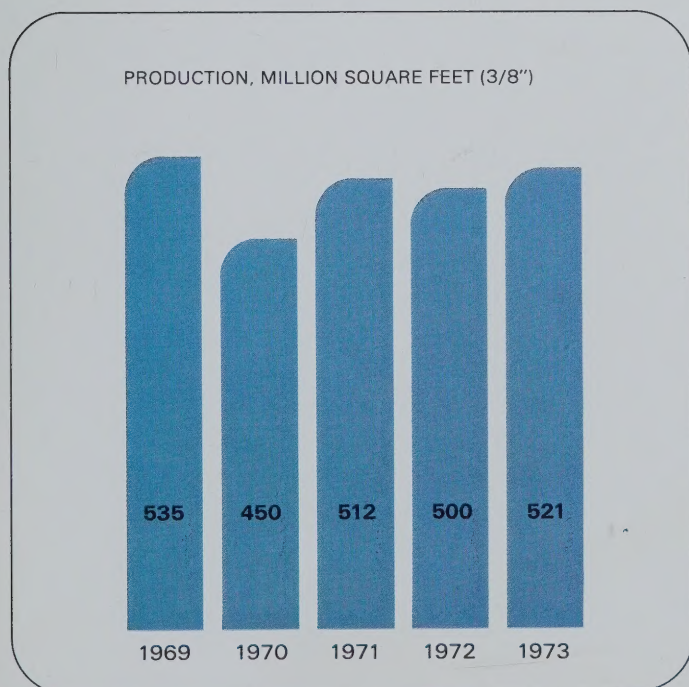
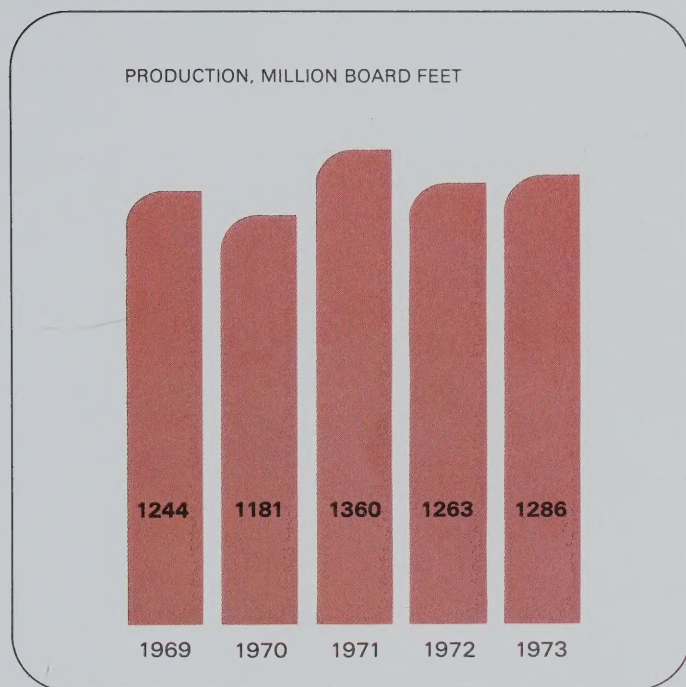
Shipments of panelboard specialties increased by close to 10% over the total for 1972. MacMillan Bloedel's SYLVACOTE PLYGARD* and SYLVACOTE URAPLY* continue to be the dominant products in the coated concrete form market.

*Registered Trademark of MacMillan Bloedel Limited.

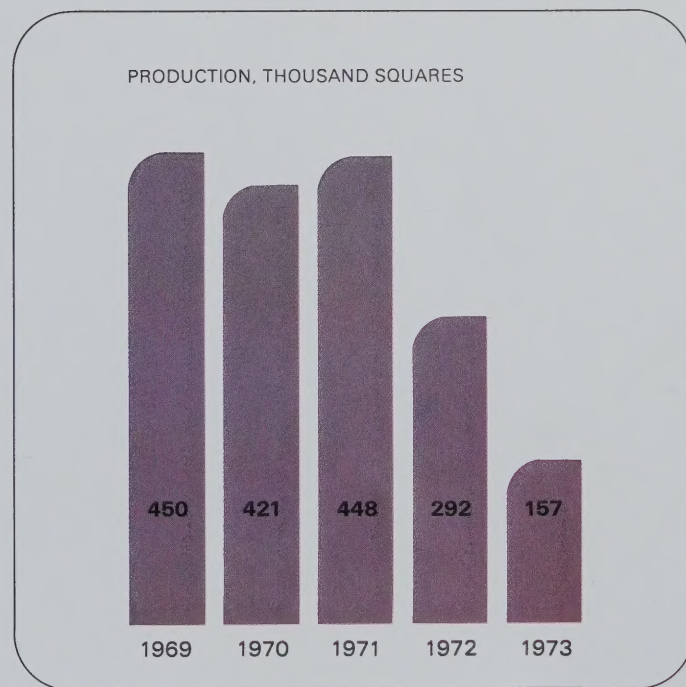
5. Logs (B.C. and other operations)



6. Lumber



7. Plywood

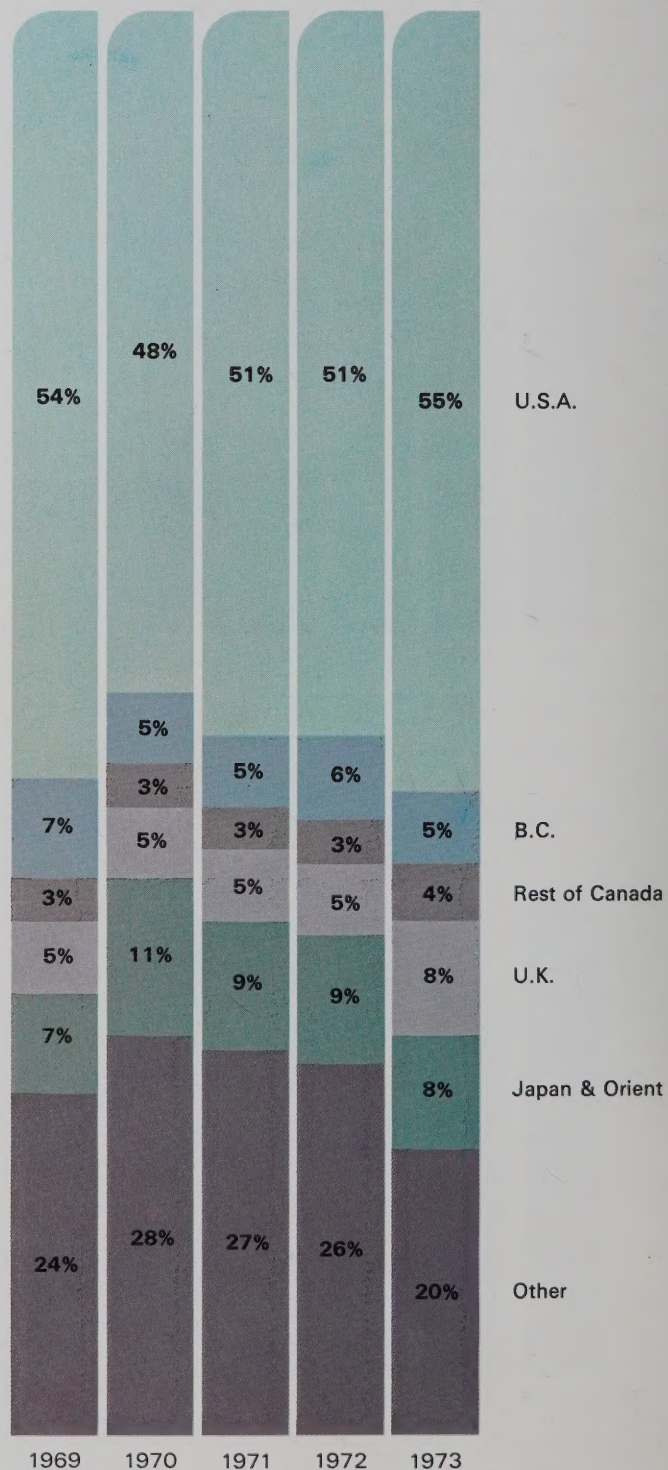


8. Shingles

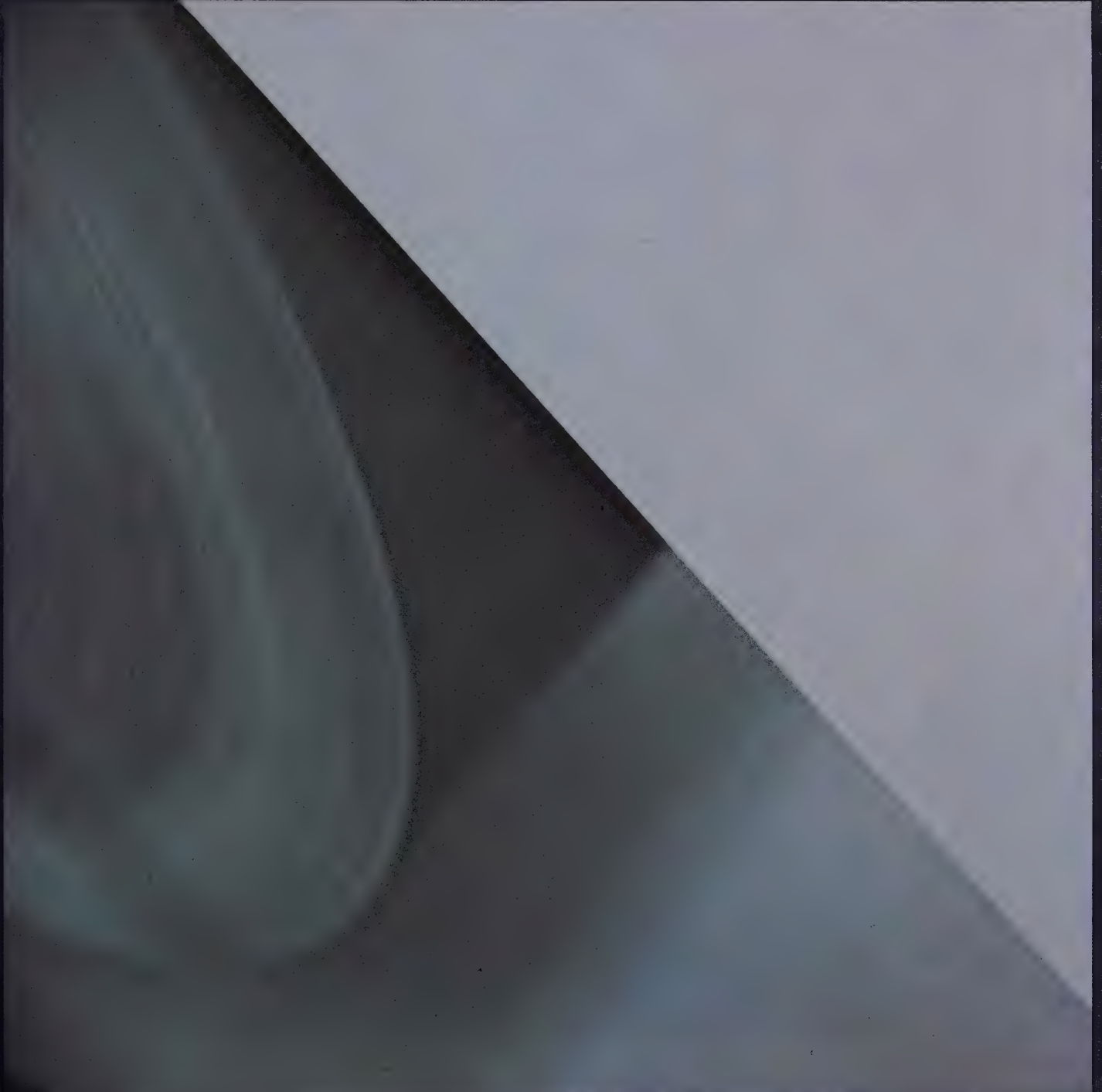
9. Sales of Lumber, Plywood and Shingles by Markets



10. Sales of Newsprint, Pulp, Kraft Paper and Paperboard and Fine Paper by Markets



Paper roll, Bag & Specialty Plant.



Pulp and Paper

Demand for all pulp and paper products was substantially stronger in 1973 than for the past several years. Prices increased for all products in world markets as did their profitability. Profit recovery was, however, restricted by cost increases and by production losses caused by strikes at the major producing mills at Port Alberni, Harmac, Saint John and Pine Hill.

Newsprint Shipments of newsprint from the Company's British Columbia mills increased by 6% over 1972, while shipments from the St. John mill increased by 8%. Production volumes fluctuated sharply during the year in reaction to the disruptions referred to above.

In early 1974, MacMillan Bloedel purchased the 49% interest which Feldmühle, A.G. owned in MacMillan Rothesay Limited. With the strong market for newsprint and efficiencies implemented both in the mill and the associated barge distribution system, the outlook for this operation is much improved.

The Company has taken several important steps to improve the profitability of its newsprint operations. These include:

- A \$20 million programme which was begun at Powell River to upgrade the mill to a fully cost-competitive position. Improvements have already been made there and the mill had a record production year.
- A rationalization of product lines in order to reduce the number of grades manufactured and thereby increase production capacity.
- Beginning in 1974, a reduction in the basis weight of standard newsprint from 32 lb. to 30 lb., thereby saving on wood, energy and freight costs. This lighter basis weight is being adopted as the new world standard for newsprint.

During the year the inventories of many customers fell to critically low levels. The most acute shortages occurred in Latin America, Japan and the United Kingdom where the energy crisis and transportation difficulties aggravated the already serious problem of supply. MacMillan Bloedel made every effort to provide sufficient supply to its regular customers.

Pulp The world market for pulp strengthened considerably during 1973 and pulp prices in both domestic and overseas markets increased. Notwithstanding favourable markets, shipments from MacMillan Bloedel's mills of all grades of pulp decreased in 1973 by 16% due to production losses caused primarily by strikes. The reduction in shipments of bleached and semi-bleached pulp was higher than in unbleached grades due to disruptions in the supply of bleaching chemicals.

Severe shortages of pulp were experienced in most markets during 1973 and little improvement can be expected during 1974. Energy supply problems contributed

to increased production costs with resultant upward pressure on prices.

Kraft Paper and Paperboard Kraft paper and paperboard remained in short supply during 1973 in both Canada and the United Kingdom, with the result that the linerboard machine at Port Alberni operated at close to capacity. A strong market also existed in the United States permitting a 7% increase in shipments from the Alabama linerboard operation.

Fine Paper Fine paper production at the Annacis Island plant was 9% above 1972 levels. Price increases and improved profitability occurred during the year. Record production levels reflected the success of the paper machine's computerized control system and other efficiency measures which have been implemented.

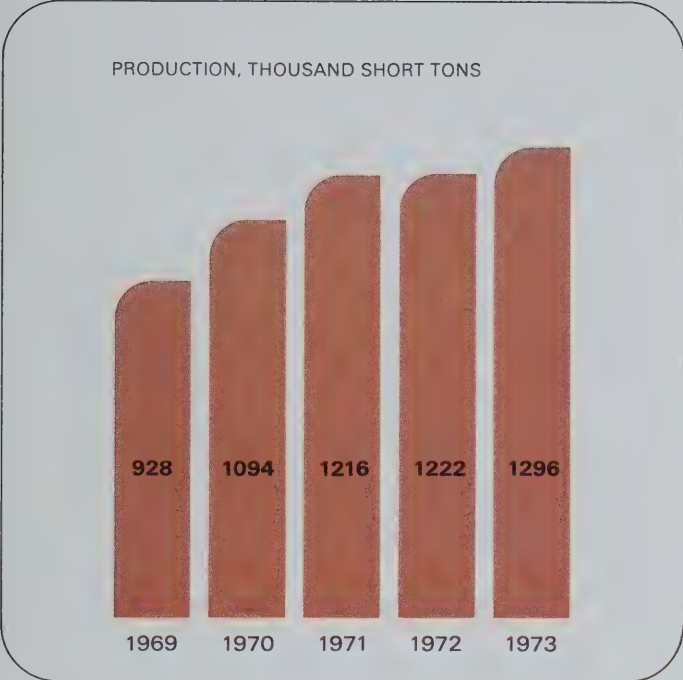
Fuel and Operating Supplies The Company's pulp and paper mills could face a shortage of fuel supplies but to minimize that possibility the Company has secured a supply of crude oil from Alberta and has made arrangements for refining and storage. In addition, the Company has options on all major equipment required for a shore-based installation of a topping unit to process Canadian crude oil. While these additional sources of supply will cushion the impact of the energy crisis on MacMillan Bloedel, higher fuel costs remain a serious problem.

Serious deficiencies, particularly in the chemical, metal and petroleum industries, caused many suppliers to allocate products. The combination of shortages and high prices led to some mill process changes to allow the use of substitute materials from new sources.

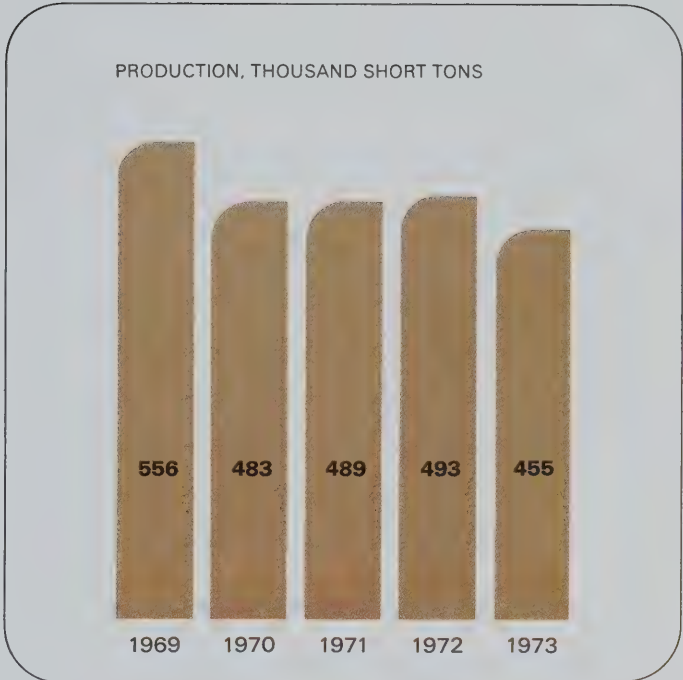
Pollution Abatement During the year a number of pollution abatement projects were completed, or were near completion at year-end, which will result in major reductions in discharges into the environment. Two clarifiers were installed at Harmac pulp mill to remove fly ash, bark and lime solids from mill effluent. A salt removal system, pioneered by MacMillan Bloedel, was introduced into the Harmac mill's chemical system to diminish the sodium chloride accumulations which resulted from the reductions in particulate matter discharged from the recovery boilers. The sodium chloride enters the system from sea-borne logs.

At Powell River a clarifier is now operating which removes lime and carbon solids from kraft mill discharges. Changes in the method of groundwood bleaching have resulted in the elimination of zinc from mill effluent at both the Powell River and Port Alberni newsprint operations. A closed water recirculation system is nearing completion at Island Paper Mills on the Fraser River which will meet the most stringent of regulations.

11. Newspaper



12. Pulp



13. Kraft Paper and Paperboard



14. Fine Paper

Packaging

MacMillan Bloedel operates 24 packaging plants in North America and the United Kingdom. The past year was a most satisfactory one for most of these plants as sales increased over 1972 by 43% while production increased by 33%. A significant proportion of the increase is attributable to the contribution for the full year of the 10 United States packaging plants purchased in June, 1972. In all, the Company operates 12 packaging plants in the United States.

As in previous years, emphasis was placed on programmes for safety and pollution control. A highly effective waste water treatment system for ink wash-up disposal was developed and installed in the New Westminster plant. Five other plants in Canada and the United States are installing similar water treatment units and eventually all plants will be equipped with such systems.

In order to meet increasing market demand, construction has been started on two new plants — one in Los Angeles and the other in Edmonton. These new plants will replace existing obsolete facilities in each city and are expected to be in full production by mid-1974. The net increase in total annual capacity of these two plants will amount to over 400 million square feet.

Canadian Operations Total sales volume from the Company's seven plants in Canada increased by approximately 12% in 1973 reflecting a strong demand for packaging products and higher price levels. The five corrugated container plants located in Winnipeg, Regina, Edmonton, Calgary and New Westminster increased their sales by approximately 16% and production by 9%. The

added volume combined with production improvements and higher prices, permitted increased profitability despite rising costs. The Bag and Specialty plant in Burnaby, British Columbia, continued to show growth in both sales and profits. Despite a marginal increase in sales, the Folding Carton plant, also located in Burnaby, was not able to offset higher raw material, labour and other costs, and profitability declined.

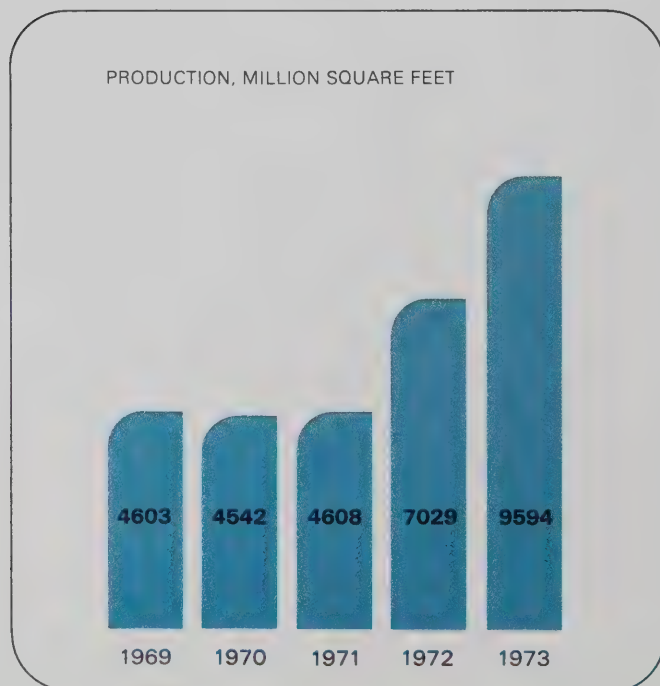
United States Operations Reflecting the first full year of ownership of the 10 plants acquired from The Flintkote Company in 1972, the total of 12 corrugated container plants in the United States achieved record sales and production levels. In 1973, sales increased by 101%, while production increased by 80% over 1972.

A reorganization of the ten new plants combined with some new equipment, the revision of the machinery layout and favourable price and volume trends permitted record profitability from these operations despite increased costs and price controls.

United Kingdom Operations Sales of corrugated containers by the five plants in Great Britain increased by nearly 12% over 1972 despite a strike in early 1973 by the gas workers and a shortage of labour at the Southall and West Auckland plants. Production time was also lost at the Hatfield plant due to delays in completing equipment layout revisions designed to improve production flows and reduce materials handling costs.

Increased selling prices for corrugated containers were not sufficient to offset greatly increased linerboard and corrugating medium prices and higher manufacturing costs. The situation was further aggravated by the diminished purchasing power of the British pound.

15. Corrugated Containers



Distinctive cardboard boxes for a major retailer.



International

As indicated earlier, MacMillan Bloedel follows a policy of selective investment abroad to provide steady markets for products manufactured in Canada and to achieve a degree of geographic and product diversification complementary to its Canadian base. Accordingly, a number of new investments in the United States and elsewhere were made in 1973 and negotiations for the acquisition of a 40% interest in four pulp mills in Europe were commenced in 1973 and completed in early 1974.

The Company's foreign investments as at the end of 1973 included the following:

United States:

INVESTMENTS —

Integrated linerboard, lumber and plywood mill at Pine Hill, Alabama.

- *The 1973 operations of these facilities are referred to on page 10.*

Twelve packaging plants in ten states.

- *The 1973 operations of the packaging plants are discussed on page 12.*

Seven wholesale building materials warehouses in six states.

- *The building materials activities are discussed on pages 4 and 6.*

Particleboard mill under construction at Pine Hill, Alabama.

- *The particleboard mill represents a further step in integrating the Alabama operations. It will be capable of producing 100,000,000 square feet $\frac{3}{4}$ " basis of board per year and will obtain approximately 25% of its raw material supply from the sawmill and plywood mill at Pine Hill.*

Chip-n-Saw mill under construction at Opelika, Alabama.

- *The Chip-n-Saw plant will be capable of producing 60,000,000 board feet of lumber per year and will supply the linerboard mill at Pine Hill with approximately 60,000 cunits of wood chips annually.*

Shipping subsidiary (Canadian Gulf Lines, Inc.) based in Houston, Texas.

- *Canadian Gulf Lines, Inc., which was acquired in 1973 in exchange for 315,000 ordinary shares issued by MacMillan Bloedel, carries on an ocean transportation business specializing in the carriage of newsprint. The company operates a fleet of small special purpose vessels and is engaged in stevedoring, terminal operations and brokerage activities.*

Consumer wood products operation centred in Walpole, Massachusetts.

- *Agreement to acquire this company was reached in late 1973 subject to certain tax rulings, and the acquisition is expected to be completed in 1974. Walpole Woodworkers Inc. manufactures fences, patio furniture and cabanas which the company distributes through its own outlets and through wholesalers in the eastern United States. The acquisition will involve the issuance by MacMillan Bloedel of 27,790 ordinary shares.*

MacMillan Bloedel's capital employed in the United States as at December 31, 1973 was over \$195 million including a further \$10.6 million earmarked to be spent in 1974 to complete the Chip-n-Saw and Particleboard plants. The contribution to consolidated net earnings from the investments in the United States was nearly \$16 million in 1973.

Europe:

INVESTMENTS —

Five corrugated container plants strategically located throughout England.

- *These operations are discussed on page 12.*

Lumber wholesaling operation and cargo operations in England and Wales carried on by a subsidiary company (MacMillan Bloedel Meyer Limited) in which Montague L. Meyer Limited has a substantial interest.

- *Remarks relating to lumber marketing activities are set out on pages 4 and 6 of this report.*

46.1%* interest in Koninklijke Nederlandsche Papierfabriek N.V. based in Maastricht, Holland.

- *KNP, a major European fine paper producer, operates mills in Holland and Belgium. Production of papers for the year surpassed 1972's total by more than 30% to reach the 340,000 metric ton level, while the improving trend in profits extended through 1973. The remaining 51% of Verenigde Papier Fabrieken Eerbeek N.V., a folding cartonboard manufacturer in Holland, was acquired by KNP during 1973.*

KNP and MacMillan Bloedel each owns 37½% of the equity of Celupal S.A. — a Spanish manufacturer of fine and coated papers.

- *Celupal increased its production of papers in 1973 by more than 20% and sales and profits were commensurately higher. Production capacity is again being increased during the first half of 1974. This will ensure that Celupal continues to participate fully in the growing Spanish market for paper products.*

40% interest in the equity of La Cellulose d'Aquitaine S.A. Approval by the French government of the investment was received in late December and the transaction was completed early in 1974.

- *La Cellulose d'Aquitaine S.A. operates three pulp mills in France and one in Belgium with a combined annual production capacity of over 580,000 metric tons. The principal products are hardwood and dissolving pulp.*

As at December 31, 1973, MacMillan Bloedel's capital employed in Britain and continental Europe amounted to \$103 million. An amount of \$8.2 million was paid in 1974 to acquire the 40% interest in La Cellulose d'Aquitaine S.A. and further capital was subscribed by MacMillan Bloedel and the other shareholders. In 1973, MacMillan Bloedel's investments within Europe contributed nearly \$12 million to the consolidated net earnings.

*KNP has outstanding convertible debentures which, if fully converted into common shares, would reduce MacMillan Bloedel's interest to 34.8%, but MacMillan Bloedel has the right to make such further subscriptions to KNP's capital as will establish its holdings at a level of 36%.

Research and Development

Pacific Rim:

INVESTMENTS—

51% interest in MacMillan Jardine Limited—a company formed in conjunction with Jardine, Matheson & Co. Limited of Hong Kong.

- *MacMillan Jardine markets a full range of MacMillan Bloedel products together with local hardwoods in the South East Asian region. Operations in 1973 were most satisfactory and permitted the Company to participate in the strong Japanese market for building materials which was experienced last year.*

30% interest by MacMillan Jardine in Mentiga Forest Products Sdn. Bhd.—a logging and plywood operation in Malaysia.

- *Mentiga Forest Products' plywood plant was completed in the second quarter of 1973. The facility was expanded to include the manufacture of blockboard, and a laminated decking plant will be on stream during 1974. Despite difficulties in log supply caused by exceptionally heavy rains, the plant has proven to be profitable from the outset although it is not yet operating at full capacity.*

25% interest by MacMillan Jardine in P. T. Sangkulirang which operates a logging concession in Indonesia.

- *The logging operations of P. T. Sangkulirang commenced in the last quarter of 1973 and a break-even position was achieved for the year. The high quality of hardwood reserves in the area makes the future potential for this project very attractive.*

A wholly owned subsidiary, MacMillan Bloedel Pty. Limited markets pulp and paper together with building materials in Australia. An interest is also held in two construction projects in Sydney, Australia.

- *MacMillan Bloedel Pty. Limited experienced an excellent year as a result of the strong demand for its products. The Company's interest in construction projects in Sydney, Australia, which are conducted in conjunction with Jardine, Matheson & Company (Australia) Pty. Limited, includes the Northside Gardens—an office block and hotel building complex now almost fully leased—and the "Northpoint"—a 40 storey office block scheduled to be completed in 1976.*

As at December 31, 1973, MacMillan Bloedel's capital employed in the Pacific Rim amounted to \$7 million. The contribution to consolidated net earnings from these investments amounted to about \$1 million in 1973.

Latin America:

Latin America possesses potential for the establishment of forest products processing facilities due to vast resources of fertile land and an extremely rapid growth rate for trees. Accordingly, MacMillan Bloedel is closely examining several possible projects in this area, including partnerships with private investors.

MacMillan Bloedel's Research and Development programme has continued actively in those areas where new technology is most urgently needed to fulfill the Company's commercial objectives and social obligations. In 1973, a total amount of \$2.7 million was expended by the Company in seeking solutions to these problems.

In view of the current shortage of pulping capacity to meet world demands, the Company's high yield H₂S Pulping Process is receiving renewed attention within the Company and from many potential licensees. This process is capable of increasing the quantity of pulp produced from a given amount of wood by 12 to 14 per cent while improving the forming properties of the pulp.

Engineering data, developed in the Company's Research and Development laboratories has assisted in developing new markets for Aspenite waferboard.

In addition, application of research findings on lumber drying cycles has increased the Company's hemlock drying capacity without additional capital investment. With the substantially increased cost of fuel, intensive examination is being made of the possibilities of alternative energy sources, particularly from an increased utilization of waste products generated by the normal production processes.

Transportation

During 1973, MacMillan Bloedel shipped from British Columbia over 4 million tons of forest products, of which approximately 24% was transported by rail and the balance by water. During the year, water freight rates continued to rise reflecting the increased costs of charter hire for dry bulk carriers and shortages of bunker fuel, particularly following the curtailment of oil production by the Arab nations.

The effect of world-wide inflation is being felt in virtually every facet of transportation. Efforts to reduce distribution costs have been intensified with emphasis being placed on the employment of specialized vessels, concentration and modernization of terminal facilities in production areas and markets, utilization of new and improved materials handling equipment and methods, and implementation of new cargo consolidation and distribution systems.

In addition to handling forest products produced by MacMillan Bloedel or by independent firms for which the Company acts as sales agent, Canadian Transport Company Limited, the Company's principal shipping subsidiary, carried outside cargoes totalling 1.5 million tons—thus consolidating its position as an internationally competitive shipping operation. The total tonnage carried makes Canadian Transport Company one of the largest dry-cargo ship operators in the world.

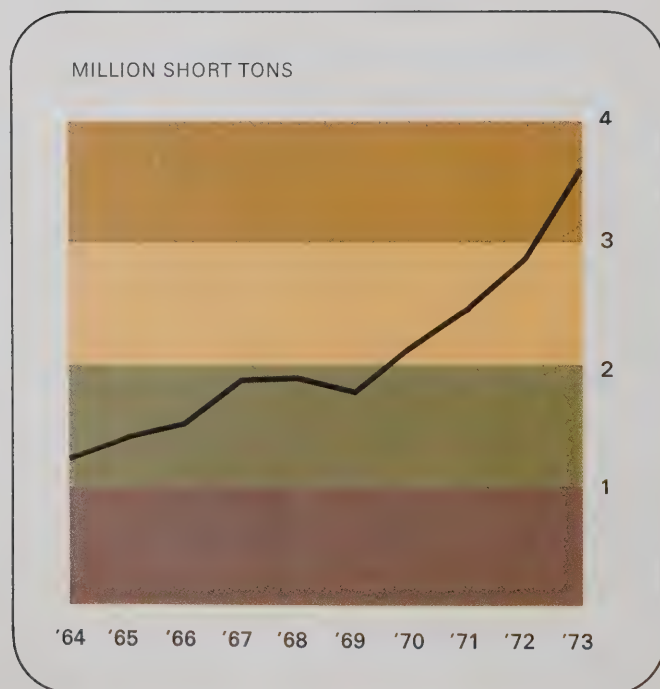
Transportation *(Continued)*

In order to develop and efficiently manage expanded operations, Canadian Transport Company opened offices in Japan early in the year, and in Australia near the end of 1973, to add to those in New York and London. These offices will provide closer supervision of discharging and thereby control costs. Activities on Vancouver Island are being expanded with the addition of a stevedoring organization which will be in operation early in 1974.

During 1973 MacMillan Bloedel significantly increased the number of vessels chartered for a period exceeding twelve months. This action minimizes the Company's exposure to sharply rising open market rates for short term charters. In addition, the increased number of ships under long term charter assists the Company in obtaining profitable return haul cargoes. The Company's commitments under these long term charters are set out in Note 11 to the Financial Statements. Open market rates are expected to remain at levels higher than those at which the long term charters were made.

In the light of the favourable outlook for MacMillan Bloedel's present shipping activities, opportunities to expand the Company's involvement in this industry are being explored aggressively. In addition to continued emphasis on securing new business for Canadian Transport, other projects under consideration include an increase in the number of vessels operated by the newly acquired subsidiary, Canadian Gulf Lines, Inc. and the ownership and management of larger-scale dry bulk carriers.

16. Waterborne Cargo Carried by Canadian Transport Company Limited



Industrial Relations

MacMillan Bloedel employed in excess of 24,000 people in 1973, the majority of them in British Columbia. The Company is a major employer and during 1973 spent \$291 million or 23.7% of total income on wages, salaries and employee benefits.

During 1973, 26 of the total of 70 union agreements were re-negotiated, covering over 6,000 employees. The two major contracts were those negotiated with the United Paperworkers International Union and the Pulp, Paper and Woodworkers of Canada. A major work stoppage occurred at Harmac during the third quarter before the contract with the Pulp, Paper and Woodworkers of Canada was renewed. The major contracts requiring re-negotiation in 1974 are those with the International Woodworkers of America.

In December, the Red Band Shingle Mill, which had operated on the Fraser River since the early 1920's, was closed permanently following the 18-month strike. All former employees of the Red Band Mill have been offered jobs in other divisions of the Company with full seniority rights, vacation credits and benefit plans.

During the year, the provincial government passed new labour legislation which gave sweeping powers and exclusive jurisdiction over strikes, lockouts and picketing to a new Labour Relations Board. MacMillan Bloedel hopes that this new legislation will have a favourable effect on labour-management relations in British Columbia.

The programme of seminars on economics and industrial relations matters, designed to establish and maintain sound relationships between the Company and its employees, was expanded in 1973 to include 2,300 supervisors in both Canada and the United States. To provide employees with a greater opportunity to obtain information about the Company's world-wide activities, a new programme called "Annual Report Day" will be initiated during 1974. All employees will be able to participate and discuss matters relating to the Company and its operations.

In keeping with the modern trend to provide employees with protection against the burden of medical costs, the Company increased the coverage of its employees under extended health and medical plans. MacMillan Bloedel has always assumed a large share of the cost of these and other health and welfare programmes for its employees and beginning in 1974 will pay an even greater portion of the total cost of these benefits.

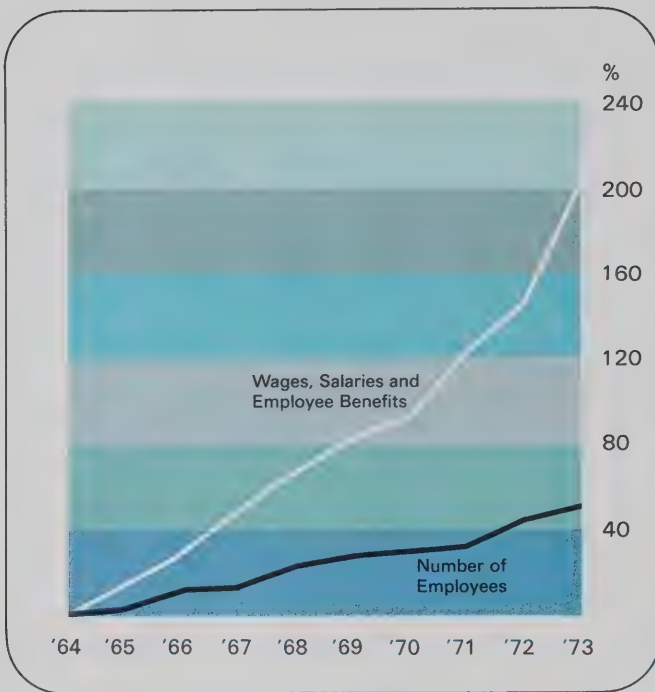
See graphs 17 and 18 on page 18.

Newsprint passing through dry end of machine at Port Alberni

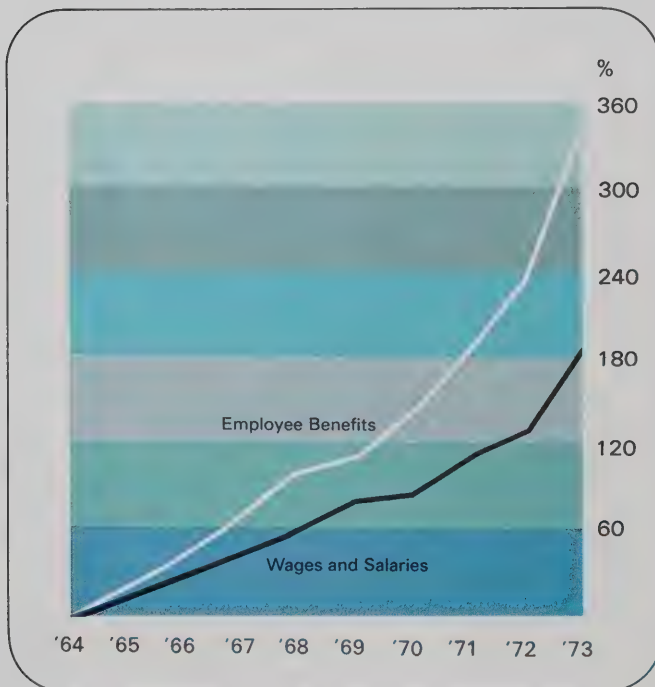


Finance

17. Percentage Increase of Wages, Salaries and Employee Benefits and Number of Employees 1964-1973



18. Percentage Increase of Wages and Salaries and Employee Benefits 1964-1973



The profit recovery in 1973 permitted the Company to increase the rate of dividend payments to the holders of MacMillan Bloedel ordinary shares. The Company declared dividends of 25 cents per share in each of the first two quarters of 1973, and 37.5 cents per share in the third and fourth quarters. Total dividends declared were, accordingly, \$1.25 per share for the year as compared with \$1.00 per share for 1972.

Net expenditures on property, plant and equipment rose from \$60.9 million in 1972 to \$86.8 million during the past year. Some \$30 million of the 1973 amount represents expenditures on plant expansion and new investment. The balance consists primarily of logging road construction (\$13.9 million), pollution abatement projects (\$7.3 million) and the many routine expenditures needed to keep the Company's operations in efficient and up to date condition.

With respect to logging road construction, the new guidelines of the British Columbia Forest Service require that different logging techniques be followed under which smaller and more widely spaced logging areas will be developed. These techniques necessitate a substantial cost increase in, and acceleration of, the road building programme. This change has already involved and will continue to involve the Company in increased capital expenditures both as to construction costs and for additional heavy machinery.

These road building requirements, together with important profit improvement projects planned for this year and the completion of plant expansions commenced in 1973, will mean a heavy capital expenditure programme in 1974. Fortunately, the Company entered 1974 in a strong financial position. Working capital increased during 1973 by \$19,489,731 to stand at \$181,519,194 at the end of the year. The working capital ratio at the end of 1973 was 2.1:1 (2.3:1 in 1972) and the ratio of long term debt to total capital employed stood at 29.7% (33.5% at the end of 1972). The Company is well placed therefore, to obtain further long term financing and the Board of Directors has authorized additional borrowings subject to suitable market conditions prevailing.

As indicated in the Quarterly Report to the Shareholders dated August 6, 1973, MacMillan Bloedel has adopted the recommended accounting practice of recording its interest in the earnings of companies in which it has a major interest (but not over 50%*) whether or not such earnings are distributed by way of dividends. Earnings interests of this kind are often referred to as equity earnings. The total of the Company's equity earnings recorded in 1973 was \$6,187,001 and the comparative figures for 1972 have been adjusted to reflect a corresponding amount of \$3,943,164.

The portion of the 1973 equity earnings which was actually received by MacMillan Bloedel in the year by

*The financial results of companies in which MacMillan Bloedel has an interest in excess of 50% are consolidated with the results of the parent company.

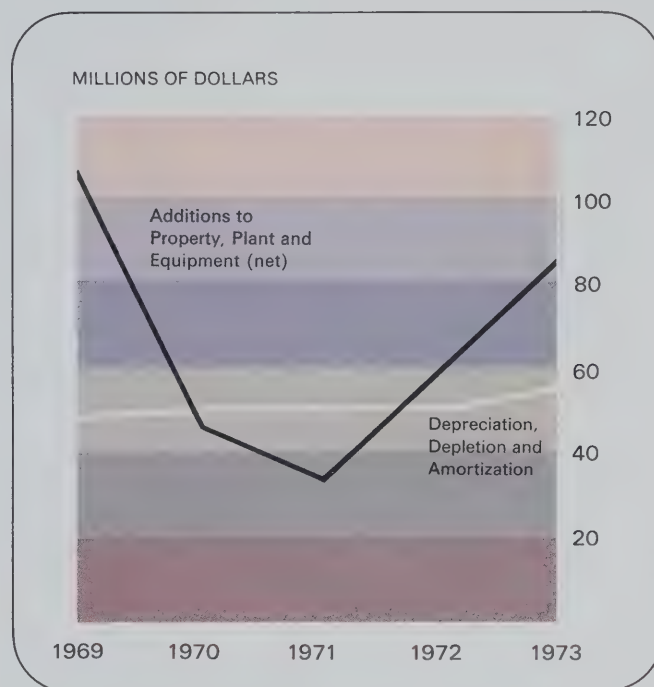
way of dividends was \$858,781. The principal investments accounted for on the equity basis are the Company's interest in Koninklijke Nederlandsche Papierfabriek N.V. and Celupal S.A. (See page 14 of this report.)

An incentive to proceed with plant expansion programmes in Canada was provided in 1973 by the accelerated rate of depreciation claimable for income tax purposes relating to manufacturing and processing equipment expenditures, and by the reduction in the rate of corporate income tax applicable to manufacturing and processing companies. The capital expenditures incurred during the past year which were eligible for accelerated depreciation totaled \$15,612,501. The effect of this acceleration of depreciation claimed for tax purposes represents a deferment, not a reduction of tax. The recommended accounting practice of providing for deferred taxes on an ongoing basis is followed by MacMillan Bloedel. Accordingly, tax deferral resulting from this accelerated depreciation claimed in 1973 is included in the provision for future years' taxes of \$6,253,766 shown under the caption "Income Taxes" in the Consolidated Statement of Earnings on page 26. Further comments on this subject are set out in Note 1(g) to the Consolidated Financial Statements. (See page 29.)

The reduction in the Canadian corporate tax rate resulted in a tax saving for the year of \$5,850,000. Even after this reduction, however, MacMillan Bloedel incurred income taxes on its entire operations in 1973 at an

overall rate of 46.1%, and the combined rate of federal and provincial income and logging taxes applicable to the Company's operations in British Columbia in 1973 was 47.9%. *(continued on page 20)*

20. Additions to Property, Plant and Equipment (net) and Depreciation, Depletion and Amortization



19. Distribution of Shares and Shareholders

AS AT DECEMBER 31, 1973

	Shares	Share-holders
Canada	17,124,137	15,865
United States	3,611,040	1,043
Other	114,361	212
	<u>20,849,538</u>	<u>17,120</u>
Share Warrants	342,847	
	<u>21,192,385</u>	

In regard to the share warrants, it is estimated that 75% are held in the U.S.A. and 25% in Canada. The number of holders is not known.

Additions to Property, Plant and Equipment (net)

The total net expenditures for the year of \$86,770,953 were grouped as follows:

Logging:

Equipment and other facilities, timber and roads . . . \$34,480,933

Building Materials:

New sawmill, secondary manufacturing facilities and warehouse in British Columbia, acquisition of Multiply Plywoods and construction of Aspenite plant in Ontario and general improvements to operations 21,082,619

Pulp and Paper:

Programmes to upgrade Powell River and Port Alberni operations, pollution abatement and miscellaneous projects to reduce costs and increase efficiency 15,244,004

Packaging:

Plants in Edmonton and Los Angeles, pollution abatement and general improvements to operations 7,312,568

Transportation:

Acquisition of Canadian Gulf Lines and normal expansion and modernization expenditures 7,996,971

Other:

Research and general corporate facilities 653,858
\$86,770,953

Finance (Continued)

Investment tax credits made available under United States tax law to companies which incur capital expenditures of certain types reduced the income tax on the Company's Alabama operations in 1973 by \$3,295,682. A further \$2,050,000 of such credits is available for carry-forward for offset against profits until the end of 1978.

Because so many of MacMillan Bloedel's sales are transacted in United States dollars, the value of that dollar vis-a-vis the Canadian dollar, has a significant bearing on the profitability of the Company's export activities. When the Canadian government abandoned a fixed rate of exchange for the Canadian dollar in May,

Outlook for 1974

At this time a singularly important factor influencing the success of the Company's 1974 operations is the supply and pricing of crude oil. It is difficult at this time to make accurate estimates but it is quite possible that Company-wide energy costs of all kinds in 1974 could exceed those incurred in 1973 by more than \$15 million. Fuel oil inventories at some of the Company's plants are below desirable levels but there is no present expectation that any operation will be forced to close or cut back production for lack of fuel. The erratic world-wide availability of bunker oil for deepsea shipping is a greater cause for concern. To date, no shipments have been missed as a result of bunker oil scarcity but some delays have occurred. Assuming the Arab States' oil embargo is lifted soon, as proposed, it should be possible to maintain shipping schedules without any disruption of sales of the Company's products.

There is, of course, much concern for the effect of short supplies and dramatic increases in the costs of fuel on the economies of the western world. A number of countries which are major markets for MacMillan Bloedel products will undoubtedly be seriously affected. However, the substantial excess production capacity for pulp and newsprint of recent years is not likely to recur—at least for some time. This factor, coupled with the low levels of consumer inventories of these commodities, makes it probable that pulp and newsprint demand will remain high in 1974, even if some national economies weaken.

Forward sales of building materials in overseas markets will help offset any hesitation in demand for lumber and plywood in the first half of 1974, but the outlook for the latter half is less certain. A great deal will depend on general economic conditions in the United States and their impact on other western economies.

The Company's packaging operations in Canada and the United States should continue to make a significant profit contribution in 1974, but the depressed state of

1970, the Canadian dollar strengthened substantially in relation to the United States dollar.

It was hoped for some time that the Canadian dollar could again be made subject to a stable exchange rate but since that time, international monetary conditions have become steadily more unsettled. During 1973, however, the United States dollar was, on average, stronger than in the previous year and this factor increased the Company's net earnings in 1973 by approximately \$2.3 million. In the light of current international conditions it is impractical to forecast the effects of exchange variations on the Company's 1974 earnings.

the United Kingdom economy is likely to erode the profitability of the packaging plants in Britain.

Notwithstanding the serious problems facing the western world, it would appear that opportunities exist for MacMillan Bloedel to achieve satisfactory earnings in 1974. These opportunities cannot be realized, however, unless industry, governments and labour approach the division of corporate income in a reasonable, fair and responsible manner. Both the governments of Canada and British Columbia have expressed an awareness of the need to maintain a healthy forest industry and it is hoped that, in shaping new policies, they will recognize that the competitive position abroad of Canadian companies needs to be strengthened.

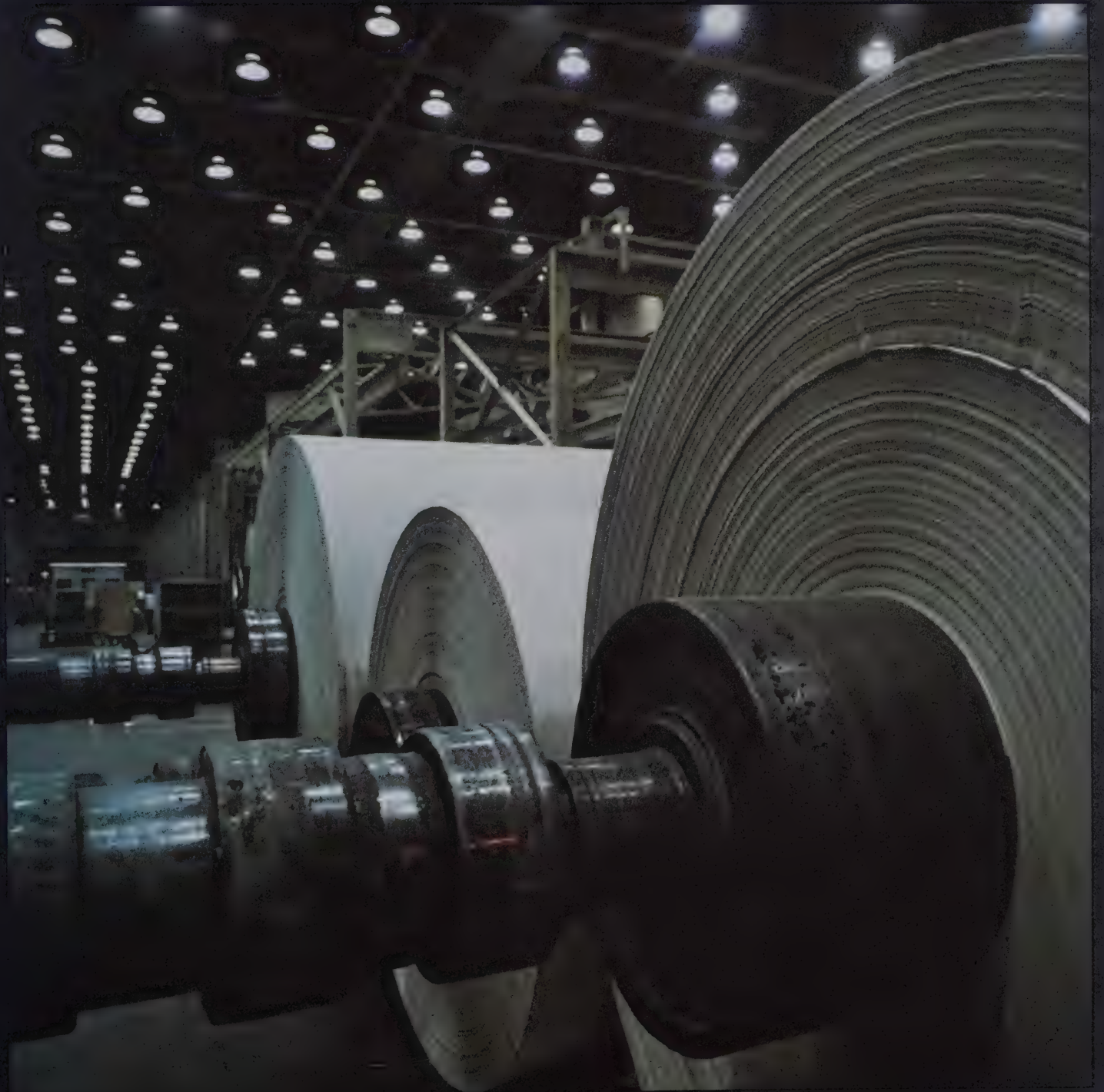
Management and labour must play down their adversary roles and recognize the complementary part that each plays in maintaining a successful industry and a buoyant provincial economy. This recognition is particularly important in the light of some of the uncertainties facing the industry in the forthcoming year. During 1973, continued emphasis was placed on labour relations within the Company. For their achievements in this area and their efforts to promote the general progress of the Company in 1973, the Directors wish to express their thanks to all employees.

Rev. Souther

Chairman of the Board

Vancouver, Canada
March 18, 1974

MB is the largest newsprint producer in Canada.



Historical Review

Operating	1973	1972	1971
Production			
Logs.....(M Cu. Ft.).....	381,319	302,646	338,578
Lumber.....(M FBM).....	1,286,188	1,263,466	1,359,605
Plywood.....(M Sq. Ft. $\frac{3}{8}$ ").....	521,040	499,616	512,377
Shingles.....(Squares).....	157,340	291,893	447,701
Particleboards.....(M Sq. Ft. $\frac{3}{8}$ ").....	188,959	208,834	196,535
Specialty boards.....(M Sq. Ft.).....	33,720	30,188	25,331
Newsprint.....(Short tons).....	1,296,245	1,222,301	1,216,359
Pulp.....(Short tons).....	454,858	493,275	489,308
Kraft paper and paperboard.....(Short tons).....	452,440	442,396	396,618
Fine paper.....(Short tons).....	31,589	28,912	27,439
Corrugated containers.....(M Sq. Ft.).....	9,593,678	7,029,314	4,608,275
Wages, salaries and employee benefits.....	\$ 290,776,357	\$231,404,789	\$210,630,593
Number of employees at end of year.....	24,478	23,136	21,036
Financial*			
Sales and other income.....	\$1,219,241,715	\$966,495,492	\$778,024,935
Earnings			
Amount (including extraordinary items).....	\$ 81,752,437	\$ 40,184,186	\$ 25,940,577
Basic net earnings per share			
Before extraordinary items.....	\$ 3.90	\$ 1.80	\$ 1.08
After extraordinary items.....	\$ 3.90	\$ 1.92	\$ 1.24
Fully diluted net earnings per share			
Before extraordinary items.....	\$ 3.85	\$ 1.77	\$ 1.08
After extraordinary items.....	\$ 3.85	\$ 1.89	\$ 1.24
Depreciation, depletion and amortization.....	\$ 55,476,281	\$ 49,825,030	\$ 49,993,725
Retained earnings (deficit) for the year.....	\$ 55,538,224	\$ 19,229,912	\$ 15,424,497
Basic cash flow			
Amount.....	\$ 141,782,008	\$ 90,933,630	\$ 67,850,368
Per share.....	\$ 6.77	\$ 4.36	\$ 3.23
Additions to property, plant and equipment (net).....	\$ 86,770,953	\$ 60,864,748	\$ 33,721,296
Percentage of long term debt to total capital employed.....	29.7	33.5	36.7
Dividends			
Cash — Ordinary shares			
Amount.....	\$ 26,214,213	\$ 20,876,385	\$ 10,438,191
Per share.....	\$ 1.25	\$ 1.00	\$.50
Cash — Preference shares			
Amount.....	—	\$ 77,889	\$ 77,889
Per share.....	—	\$.03	\$.03
Stock			
Amount.....	—	—	—
Per share.....	—	—	—
Number of shareholders at end of year**.....	17,120	19,125	20,124

*Certain prior years' figures have been restated to effect the equity method of accounting for partly-owned companies and to reflect a litigation award applicable to 1967.

**Excluding holders of share warrants.

***Includes tonnage purchased during strike.

1970	1969	1968	1967	1966	1965	1964
307,920	359,924	310,003	274,677	273,425	238,900	215,512
1,180,541	1,244,260	1,279,284	1,139,437	1,037,806	1,014,757	915,206
450,029	534,950	477,728	416,664	406,271	386,457	374,036
420,929	449,837	469,598	443,816	430,852	479,983	452,002
145,078	133,154	81,992	89,905	68,557	38,016	—
21,419	22,668	18,235	12,950	7,517	1,580	—
1,093,765	927,868	813,748	832,361	896,361	843,968	790,850***
483,059	556,468	546,761	550,245	586,867	556,135	483,773
349,298	455,654	239,285	178,382	174,462	173,018	159,683***
27,631	24,331	23,292	20,801	20,043	17,868	14,482
4,541,820	4,603,282	4,369,452	4,075,932	3,713,726	3,017,981	2,946,891
\$182,260,737	\$176,071,572	\$158,644,055	\$139,566,066	\$123,580,240	\$107,328,959	\$ 94,653,880
20,830	20,595	20,023	18,268	17,919	16,733	15,963
\$687,838,361	\$678,784,646	\$619,988,931	\$563,332,823	\$511,773,371	\$464,404,805	\$438,303,408
\$ 17,870,280	\$ 42,271,225	\$ 38,679,478	\$ 36,662,621	\$ 42,213,204	\$ 40,800,160	\$ 41,570,932
\$.85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96	\$ 1.99
\$.85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96	\$ 1.99
\$.85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96	\$ 1.99
\$.85	\$ 2.02	\$ 1.85	\$ 1.76	\$ 2.02	\$ 1.96	\$ 1.99
\$ 49,305,374	\$ 48,113,915	\$ 39,891,207	\$ 31,922,661	\$ 29,112,129	\$ 24,720,985	\$ 29,587,834
\$ (3,083,939)	\$ 21,322,737	\$ 17,745,334	\$ 11,557,227	\$ 16,096,063	\$ 15,757,554	\$ 16,555,426
\$ 66,336,320	\$ 95,535,624	\$ 80,402,659	\$ 75,539,716	\$ 91,767,060	\$ 75,290,610	\$ 76,104,142
\$ 3.18	\$ 4.58	\$ 3.86	\$ 3.62	\$ 4.40	\$ 3.61	\$ 3.65
\$ 47,432,052	\$106,601,305	\$ 78,305,467	\$122,684,007	\$ 91,862,248	\$ 54,850,832	\$ 86,271,501
36.0	36.8	36.9	36.5	34.9	16.3	19.2
\$ 20,876,330	\$ 20,870,599	\$ 20,856,255	\$ 25,027,505	\$ 20,856,255	\$ 20,848,755	\$ 20,846,255
\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.20	\$ 1.00	\$ 1.00	\$ 1.00
\$ 77,889	\$ 77,889	\$ 77,889	\$ 77,889	\$ 46,822	\$ 24,600	—
\$.03	\$.03	\$.03	\$.03	\$.03	\$.03	—
—	—	—	—	\$ 5,214,064	\$ 4,169,251	\$ 4,169,251
—	—	—	—	\$.25	\$.20	\$.20
21,575	22,282	23,751	24,671	24,415	23,135	20,597

Consolidated Balance Sheet

December 31 1973

Assets

	<u>1973</u>	<u>1972</u>
CURRENT ASSETS:		
Cash	\$ 7,643,785	\$ 4,253,510
Short term investments and deposits, at cost, market value \$29,164,713 (1972 — \$25,597,896)	29,154,050	25,595,081
Trade and other accounts receivable	143,734,965	125,946,744
Inventories (Note 2)	160,691,431	123,237,881
Prepaid expenses	5,525,146	3,762,312
Income tax allocations in respect of future years (Note 1(g))	3,670,303	2,019,694
	<u>350,419,680</u>	<u>284,815,222</u>
INVESTMENTS AND OTHER ASSETS:		
Partly-owned companies (Notes 1(d) and 3)	33,116,614	27,054,170
Investments, at cost, having quoted market value of \$7,895,690 (1972 — \$6,685,560)	7,073,154	4,458,776
Other, at cost	10,938,419	10,744,926
	<u>51,128,187</u>	<u>42,257,872</u>
PROPERTY, PLANT AND EQUIPMENT:		
Buildings and equipment, at cost (Note 4)	944,655,343	882,084,454
Less: Accumulated depreciation	469,141,728	432,874,563
	475,513,615	449,209,891
Timber, at cost less accumulated depletion of \$89,019,695 (1972 — \$83,346,617)	71,567,293	74,222,371
Logging roads, at cost less amortization	26,011,374	20,019,856
Land, at cost	11,835,444	10,180,936
	<u>584,927,726</u>	<u>553,633,054</u>
INTANGIBLE ASSETS (Note 1(f)):		
Unallocated cost of shares in subsidiaries	26,667,562	26,667,562
Bond and debenture discount and financing expenses, at cost less amortization	1,475,103	1,623,174
Other, at cost less amortization	1,473,772	—
	<u>29,616,437</u>	<u>28,290,736</u>
	<u>\$1,016,092,030</u>	<u>\$908,996,884</u>

1972 comparative figures have been restated (Notes 1(d) and 5)

Liabilities

	<u>1973</u>	<u>1972</u>
CURRENT LIABILITIES:		
Bank loans and indebtedness	\$ 11,367,115	\$ 23,343,670
Accounts payable and accrued liabilities	112,725,649	78,197,710
Dividend payable	—	2,087,639
Income taxes payable	34,672,759	11,336,557
Current portion of long term debt (Note 7)	<u>10,134,963</u>	<u>7,820,183</u>
	<u>168,900,486</u>	<u>122,785,759</u>
LONG TERM DEBT:		
Bonds and debentures (Note 6)	234,078,283	241,701,112
Other secured liabilities	<u>17,617,415</u>	<u>21,492,859</u>
	<u>251,695,698</u>	<u>263,193,971</u>
INCOME TAX ALLOCATIONS IN RESPECT OF FUTURE YEARS (Note 1(g))	<u>78,279,377</u>	<u>69,861,236</u>
MINORITY INTERESTS IN SUBSIDIARIES (Note 8)	<u>45,045,785</u>	<u>45,141,960</u>
	<u>543,921,346</u>	<u>500,982,926</u>
Shareholders' Equity		
SHARE CAPITAL:		
3% non-cumulative redeemable preference shares with a par value of \$1 each (Note 9)	—	624,948
Ordinary shares without nominal or par value (Notes 9, 10 and 14) — Authorized — 25,000,000 shares Outstanding — 21,192,385 shares (1972 — 20,876,385 shares)	<u>169,278,927</u>	<u>160,035,477</u>
	<u>169,278,927</u>	<u>160,660,425</u>
RETAINED EARNINGS	<u>302,891,757</u>	<u>247,353,533</u>
	<u>472,170,684</u>	<u>408,013,958</u>
COMMITMENTS (Notes 8 and 11)		
SUBSEQUENT EVENTS (Note 15)		
	<u>\$1,016,092,030</u>	<u>\$908,996,884</u>

The consolidated financial statements have been approved by the Board of Directors:

R. W. Bonner *Director*

G. B. Currie *Director*

Consolidated Statement of Earnings

For the year ended December 31 1973

	1973	1972
Sales and other income:		
Sales of products and services (Note 12(a))	\$1,215,190,651	\$964,189,597
Income from investments	3,246,112	1,962,422
Profit on disposal of investments and other assets and property, plant and equipment	804,952	343,473
	<u>1,219,241,715</u>	<u>966,495,492</u>
Costs and expenses (Notes 12(b) and (c) and 13):		
Cost of sales and services	992,937,851	827,789,520
Selling, general and administrative	66,696,661	55,083,774
Long term debt interest	14,496,884	14,820,830
Bank and other interest	589,323	2,419,210
	<u>1,074,720,719</u>	<u>900,113,334</u>
Earnings before income taxes and other undernoted items	<u>144,520,996</u>	<u>66,382,158</u>
Income taxes (Note 1(g)):		
Current	60,353,289	32,395,500
Future years	6,253,766	57,189
	<u>66,607,055</u>	<u>32,452,689</u>
Earnings before undernoted items	<u>77,913,941</u>	<u>33,929,469</u>
Equity in earnings of partly-owned companies (Note 1(d))	6,187,001	3,943,164
Minority interests in subsidiaries	(2,348,505)	(313,661)
Earnings before extraordinary items	81,752,437	37,558,972
Extraordinary items (Note 12(d))	—	2,625,214
Net earnings	<u>\$ 81,752,437</u>	<u>\$ 40,184,186</u>
Basic net earnings per ordinary share:		
Earnings before extraordinary items	\$3.90	\$1.80
Extraordinary items	—	.12
Net earnings	<u>\$3.90</u>	<u>\$1.92</u>
Fully diluted net earnings per ordinary share (Note 1(d)):		
Earnings before extraordinary items	\$3.85	\$1.77
Extraordinary items	—	.12
Net earnings	<u>\$3.85</u>	<u>\$1.89</u>

*1972 comparative figures have been restated (Note 1(d))***Consolidated Statement of Retained Earnings**

For the year ended December 31 1973

	1973	1972
Balance at beginning of year:		
As previously reported	\$ 243,382,531	\$226,678,243
Adjustments —		
Equity in undistributed earnings of partly-owned companies (Note 1(d))	3,354,458	828,834
Litigation award, less related income taxes of \$597,125 (Note 5)	616,544	616,544
As restated	247,353,533	228,123,621
Net earnings	<u>81,752,437</u>	<u>40,184,186</u>
	<u>329,105,970</u>	<u>268,307,807</u>
Dividends:		
On ordinary shares — \$1.25 per share (\$1.00 per share in 1972)	26,214,213	20,876,385
On preference shares (\$0.03 per share in 1972) (Note 9)	—	77,889
	<u>26,214,213</u>	<u>20,954,274</u>
Balance at end of year	<u>\$ 302,891,757</u>	<u>\$247,353,533</u>

Consolidated Statement of Source and Application of Working Capital

For the year ended December 31 1973

	1973	1972
SOURCE OF WORKING CAPITAL:		
Earnings —		
Net earnings	\$ 81,752,437	\$ 40,184,186
Components of net earnings not affecting working capital (credit items shown in brackets):		
Depreciation, depletion and amortization of logging roads	55,476,281	49,825,030
Future years' income taxes — long term portion	7,918,375	3,316,816
Equity in earnings of partly-owned companies	(6,187,001)	(3,943,164)
Profit on disposal of investments and other assets and property, plant and equipment	(804,952)	(343,473)
Minority interests in subsidiaries	2,348,505	313,661
Amortization of intangible assets	419,582	163,034
Dividends received from partly-owned companies	858,781	1,417,540
	<u>141,782,008</u>	<u>90,933,630</u>
Shares issued for cash (Note 10)	29,700	—
Proceeds of issue of long term debt	3,880,708	840,670
Equity provided by minority interests in subsidiaries	64,811	31,708,182
Proceeds of disposals of investments and other assets	4,472,528	2,073,437
Proceeds of disposals of property, plant and equipment	2,019,803	2,700,427
Value of shares issued for subsidiary acquired (Note 14)	9,213,750	—
	<u>161,463,308</u>	<u>128,256,346</u>
APPLICATION OF WORKING CAPITAL:		
Additions to property, plant and equipment	79,858,065	39,629,789
Acquisition of subsidiaries, less working capital of subsidiaries as at dates of acquisition (Note 14)	10,277,448	23,832,105
Investments in and advances to partly-owned companies	734,224	1,395,868
Investments having quoted market value	2,777,878	—
Other investments and other assets	3,217,154	3,273,693
Reduction in long term debt —		
Bonds and debentures	10,622,829	8,721,269
Other secured liabilities	5,134,807	2,697,257
Purchase of preference shares for cancellation (Note 9)	624,948	1,971,337
Dividends —		
Shareholders of the company	26,214,213	20,954,274
Minority shareholders of subsidiaries	2,512,011	868,122
	<u>141,973,577</u>	<u>103,343,714</u>
Increase in working capital	<u>19,489,731</u>	<u>24,912,632</u>
Working capital at beginning of year	162,029,463	137,116,831
Working capital at end of year	<u>\$181,519,194</u>	<u>\$162,029,463</u>
CHANGES IN WORKING CAPITAL COMPONENTS:		
Increases in current assets:		
Cash	\$ 3,390,275	\$ 268,452
Short term investments and deposits	3,558,969	10,748,495
Trade and other accounts receivable	17,788,221	10,504,435
Inventories	37,453,550	1,880,157
Prepaid expenses	1,762,834	973,373
Income tax allocations in respect of future years	1,650,609	3,259,627
	<u>65,604,458</u>	<u>27,634,539</u>
Increases (decreases) in current liabilities:		
Bank loans and indebtedness	(11,976,555)	(21,153,898)
Accounts payable and accrued liabilities	34,527,939	13,381,036
Dividend payable	(2,087,639)	2,087,639
Income taxes payable	23,336,202	8,182,610
Current portion of long term debt	2,314,780	224,520
	<u>46,114,727</u>	<u>2,721,907</u>
Increase in working capital	<u>\$ 19,489,731</u>	<u>\$ 24,912,632</u>

1972 comparative figures have been restated (Note 1(d)) and reclassified for conformity with 1973

Auditors' Report and Notes to Consolidated Financial Statements

Auditors' Report

To the Shareholders of MacMillan Bloedel Limited:

We have examined the consolidated balance sheet of MacMillan Bloedel Limited as at December 31, 1973 and the consolidated statements of earnings, retained earnings and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles which, (1) after giving retroactive effect to the change in the accounting for investments in partly-owned companies, and (2) except for the change to an accrual basis of providing for withholding taxes on undistributed earnings of foreign subsidiaries, have been applied on a basis consistent with that of the preceding year. The changes, of which we approve, are explained in Notes 1(d) and 1(g), respectively, to the consolidated financial statements. In accordance with Section 212 of the British Columbia Companies Act we report that, in our opinion, due provision has been made for minority interests.

February 18, 1974
Vancouver, B.C.

PRICE WATERHOUSE & CO.,
Chartered Accountants.

MacMillan Bloedel Limited

Notes to Consolidated Financial Statements

December 31 1973

1. ACCOUNTING POLICIES:

The undernoted significant accounting policies followed by the company are set forth to facilitate an understanding of the accompanying consolidated financial statements.

(a) Principles of consolidation —

The consolidated financial statements include the financial statements of the company and all its subsidiaries.

(b) Foreign currency translations —

The company conducts a large portion of its business in foreign markets and has substantial amounts of foreign currency assets and liabilities. Current assets and current liabilities in foreign currencies are translated into Canadian dollars at rates related to forward exchange contracts or, where not covered by forward exchange contracts, at the rates of exchange in effect as at the balance sheet dates; other assets (and related depreciation, depletion and amortization) and liabilities at the rates in effect at the dates on which the assets were acquired or the liabilities were incurred; and

1. ACCOUNTING POLICIES: *(b) Foreign currency translations (continued)*

items affecting net earnings (other than inventories, depreciation, depletion and amortization) at the average rates for the year. The net balance (which was not material in 1973 and 1972) arising from the translation of foreign currencies is included in consolidated net earnings.

(c) Valuation of inventories —

Inventories of logs, pulp chips, pulpwood and cordwood, and operating and maintenance supplies are valued at the lower of average cost and replacement cost. Inventories of manufactured products are valued at the lower of average cost and net realizable value.

(d) Accounting for partly-owned companies —

Partly-owned companies include those companies in which the company holds a major interest (but not over 50%) in the outstanding equity shares.

In prior years, the investments in these companies were carried at cost and dividend income was included in consolidated net earnings when received. In 1973, the company retroactively adopted the equity method of accounting for these investments in accordance with current Canadian accounting practice. As a result, the company's share of the net earnings of the partly-owned companies, net of applicable income taxes, is included in consolidated net earnings whether or not such earnings are distributed currently by way of dividends. Consolidated net earnings for 1972 have been restated accordingly and consolidated retained earnings at the beginning of 1973 and 1972 have been restated to reflect the cumulative effect of this change in accounting principles to those dates. The effect of this change, after appropriate consolidating adjustments, has been to increase consolidated net earnings in 1973 by \$4,985,400 (\$0.24 per share) and in 1972 by \$2,525,624 (\$0.12 per share).

The excess of the cost of investments in partly-owned companies over the company's proportionate interests in the underlying net book value of the assets of the partly-owned companies at dates of purchase amounted to \$731,077. This amount has been attributed to property, plant and equipment and is being depreciated in accordance with company policy.

A major partly-owned company, Koninklijke Nederlandsche Papierfabriek N.V., has debentures outstanding which, beginning in 1975, are convertible at the holders' option into common shares of that company. Had such a conversion taken place at the beginning of 1973, the effect would have been to reduce the company's equity in earnings of partly-owned companies by \$976,000 (\$0.05 per share). The comparable figure for 1972 would have been \$592,000 (\$0.03 per share).

(e) Property, plant and equipment and accumulated depreciation, depletion and amortization of logging roads —

The costs of maintenance, repairs and minor renewals or replacements are charged to cost of sales and services or other expenses. The costs of major replacements, extensions and betterments are capitalized in the property, plant and equipment accounts. On retirement or disposal of property, plant and equipment, the costs thereof and the related accumulated depreciation, depletion or amortization are eliminated from the accounts and any gains or losses are reflected in the consolidated statement of earnings.

Depreciation is computed on a straight-line basis on original cost at rates varying from 2½% on buildings to 15% on logging equipment; depletion of timber and amortization of logging roads are determined on a basis related to log production. Amortization of logging roads is deducted from the asset account.

(f) Intangible assets —

The unallocated cost of shares in subsidiaries represents the excess of the purchase price over the values attributed to the underlying net tangible assets at dates of acquisition and, as in previous years, the company does not consider it appropriate to provide for amortization at this time because no diminution of value has occurred.

Recent recommendations of the Canadian Institute of Chartered Accountants will require mandatory amortization of similar intangible assets acquired after April 1, 1974, over periods not exceeding forty years. The company intends to follow these guidelines and, for consistency, will commence amortizing (over forty years) the existing unallocated cost of shares in subsidiaries. Annual amortization of this amount will be approximately \$667,000 (\$0.03 per share).

Amortization of bond and debenture discount and financing expenses is computed on a basis related to the principal amounts outstanding. Other intangible assets are being amortized at appropriate straight-line rates.

(g) Income taxes —

The company records income taxes on the tax allocation basis recommended by the Canadian Institute of Chartered Accountants. Each year, income taxes currently payable may differ from total income tax expenses of the year as a result of timing differences between the recognition of income and expenditures for accounting and tax purposes. Such differences most frequently result from depreciation being claimed for income tax purposes in excess of amounts of depreciation recorded for accounting purposes and from charges to earnings in a year of items which will only be deductible for tax purposes in future years.

Any tax expense which results from a given year's operations but the payment of which is, in effect, deferred to future years is charged against that year's earnings but is recorded on the balance sheet in accounts designated "Income tax allocations in respect of future years". Similarly, tax reductions arising out of a given year's transactions but which will not actually reduce income taxes payable until future years are credited to earnings on a current basis but they too are recorded in the balance sheet in income tax allocations accounts. Such accounts are classified as current or deferred depending upon the nature of the underlying items. At such time as these future years' taxes become payable or the reductions become effective, transfers are made from these accounts and are credited or charged as the case may be to the consolidated statement of earnings. Thus, the future years' income tax item in the consolidated statement of earnings is frequently a composite of charges and credits and hence may be a net charge in some years and a net credit in others.

Notes to Consolidated Financial Statements (continued)

1. ACCOUNTING POLICIES: (g) Income taxes (continued)

In the case of certain prior years' losses of MacMillan Rothesay Limited (which were primarily incurred during construction and start-up of that subsidiary's second paper machine) certain prescribed conditions necessary for income tax allocation accounting were not present. This basis of accounting was not, therefore, followed. The unapplied portion of these losses aggregated \$6,515,000 as at December 31, 1973.

In 1973, United States investment tax credits were deducted from United States income tax provisions in the amount of \$3,295,682 (\$109,000 in 1972). Further investment credits of \$2,050,000 are available to reduce income tax provisions in future years.

Manufacturing and processing industry corporate tax rate reductions available in Canada were applied in the calculation of current and future years' income tax expense, and the related tax reductions aggregated \$5,850,000 in 1973. No comparable rate reductions were available in 1972.

In prior years, withholding taxes on dividends received from foreign subsidiaries were charged to consolidated net earnings when paid. Commencing with 1973 the company has adopted the policy of charging net earnings currently for withholding taxes applicable to its share of foreign subsidiary net earnings which are not expected to be indefinitely reinvested by the subsidiaries. This change in accounting principles has been made in recognition of the company's increased investment in foreign subsidiaries and their increased earnings levels. As the amounts of undistributed earnings of foreign subsidiaries subject to withholding taxes as at December 31, 1972 were immaterial, no adjustments of prior years' figures are necessary to give retroactive effect to the new policy. The effect of the change in the current year has been to decrease 1973 consolidated net earnings by \$822,000 (\$0.04 per share).

(h) Research, development and pre-operating expenses —

It is the company's policy to charge against consolidated net earnings all such expenses as incurred rather than deferring or capitalizing them. Pre-operating expenses include all costs associated with new plant facilities except for actual capital expenditures and overhead related directly thereto.

2. INVENTORIES:

	December 31	
	1973	1972
Logs, pulp chips, pulpwood and cordwood	\$ 42,666,885	\$ 28,834,445
Operating and maintenance supplies	20,539,365	16,633,557
Lumber, plywood and other building materials	65,385,289	47,458,314
Pulp and paper products	26,867,131	25,719,375
Packaging products	5,232,761	4,592,190
	<u>\$160,691,431</u>	<u>\$123,237,881</u>

3. PARTLY-OWNED COMPANIES:

	December 31	
	1973	1972
Investments in shares, at cost (principally Koninklijke Nederlandsche Papierfabriek N.V. and Celupal S.A.)	\$ 21,217,935	\$ 20,237,262
Accumulated equity in earnings since acquisition, less dividends received	8,682,678	3,354,458
Advances	3,216,001	3,462,450
	<u>\$ 33,116,614</u>	<u>\$ 27,054,170</u>

4. BUILDINGS AND EQUIPMENT:

	Cost	Accumulated depreciation	Net
December 31, 1973:			
Pulp and paper mills	\$614,832,382	\$310,911,946	\$303,920,436
Sawmills, plywood mills and other building materials plants	124,043,386	68,495,968	55,547,418
Logging buildings and equipment	82,372,461	48,709,230	33,663,231
Packaging plants	73,030,068	25,136,788	47,893,280
Other buildings and equipment	50,377,046	15,887,796	34,489,250
	<u>\$944,655,343</u>	<u>\$469,141,728</u>	<u>\$475,513,615</u>
December 31, 1972:			
Pulp and paper mills	\$602,923,484	\$290,690,867	\$312,232,617
Sawmills, plywood mills and other building materials plants	107,313,652	62,869,660	44,443,992
Logging buildings and equipment	68,471,547	46,578,002	21,893,545
Packaging plants	66,853,510	22,222,125	44,631,385
Other buildings and equipment	36,522,261	10,513,909	26,008,352
	<u>\$882,084,454</u>	<u>\$432,874,563</u>	<u>\$449,209,891</u>

The company's principal plant facilities in Alabama and its head office building are held under long term leases containing provisions which indicate that the assets should be accounted for on a basis of ownership. Consequently, the cost of these leased assets, aggregating \$88,192,568 (\$87,750,000 in 1972), and related depreciation and long term debt are included in the accompanying financial statements.

5. LITIGATION AWARD:

On October 19, 1973 the Supreme Court of Canada gave final judgment in favour of the company for \$1,213,669 in respect of loss of and damage to timber stands and recovery of other costs relating to a fire which damaged company timber on Vancouver Island in 1967. After related income taxes of \$597,125, \$616,544 has been credited to retained earnings as the recovery relates to a prior year.

6. BONDS AND DEBENTURES:

	December 31	
	1973	1972
MacMillan Bloedel Limited —		
4.95% sinking fund debentures, Series "A", maturing October 1, 1990 (U.S. \$35,700,000)	\$ 38,352,325	\$ 40,608,343
5½% ten-year term debentures, Series "B", maturing January 3, 1976	50,000,000	50,000,000
6½% sinking fund debentures, Series "C", maturing July 15, 1992 (U.S. \$25,557,000)	27,541,556	30,154,804
7½% debentures, Series "D", maturing May 15, 1978	10,000,000	10,000,000
8½% sinking fund debentures, Series "E", maturing May 15, 1991	20,000,000	20,000,000
	<u>145,893,881</u>	<u>150,763,147</u>
MacMillan Bloedel Inc.* —		
4.05% to 4.10% industrial development revenue bonds, maturing June 1, 1974 and 1975 (U.S. \$3,510,000)	3,773,250	6,675,750
4% sinking fund industrial development revenue bonds, maturing June 1, 1988 (U.S. \$54,000,000)	58,050,000	58,050,000
	<u>61,823,250</u>	<u>64,725,750</u>
MacMillan Rothesay Limited —		
6% first mortgage and collateral sinking fund bonds, Series "A", maturing March 1, 1985 (U.S. \$10,020,000)	10,771,500	11,663,750
6½% general mortgage sinking fund bonds, Series "A", maturing October 1, 1985	6,965,000	7,275,000
7½% debenture certificate, due December 31, 1979	22,500	22,500
	<u>17,759,000</u>	<u>18,961,250</u>
MacMillan Bloedel Industries Limited —		
Sinking fund debentures:		
5% twenty-year debentures, Series "A", maturing May 15, 1978	4,289,000	5,294,000
4% twenty-year debentures, Series "B", maturing May 15, 1978 (U.S. \$2,850,000)	2,742,234	2,742,234
	<u>7,031,234</u>	<u>8,036,234</u>
Burnaby Paperboard Ltd. —		
First mortgage and collateral trust bonds:		
1955 Series —		
4½% sinking fund bonds, maturing September 1, 1975	2,686,500	2,817,000
1958 Series —		
5¼% sinking fund bonds, maturing May 15, 1978	1,271,500	1,352,000
	<u>3,958,000</u>	<u>4,169,000</u>
Lee Timber Products Inc.** —		
5½% first mortgage industrial revenue bonds, maturing August 1, 1976 (U.S. \$3,000,000)	3,000,000	—
Kingsway Lumber Co. Limited —		
6¼% sinking fund debentures:		
Series "A", maturing December 15, 1982	559,500	634,000
Series "B", maturing February 1, 1985	469,000	534,000
	<u>1,028,500</u>	<u>1,168,000</u>
	<u>240,493,865</u>	<u>247,823,381</u>
Less: Payments due within one year, before adjustment to current rate of exchange (Notes 1(b) and 7)	6,415,582	6,122,269
	<u>\$234,078,283</u>	<u>\$241,701,112</u>

*These industrial development revenue bonds are direct obligations of The Industrial Development Board of the Town of Camden, Alabama (see Note 4).

**These industrial revenue bonds are direct obligations of The Industrial Development Board of the City of Opelika, Alabama (see Note 4).

6. BONDS AND DEBENTURES: (continued)

Bonds and debentures repayable in U.S. currency at December 31, 1973 aggregated \$134,637,000 and have been translated into Canadian dollars at rates in effect on the dates the liabilities were incurred. On the basis of exchange rates in effect at December 31, 1973 these liabilities could be extinguished for \$9,172,784 less than their carrying value. This unrealized gain on foreign exchange has not been recognized in the accompanying consolidated financial statements.

The majority of the companies' assets are pledged by fixed and floating charges as security for the bonds, debentures and other secured liabilities. The principal trust indentures securing the company's debentures contain dividend payment restrictions. At December 31, 1973 approximately \$90,000,000 was available for payment of dividends under the most restrictive of those provisions.

7. PAYMENTS ON LONG TERM DEBT:

Payments on long term debt required for each of the five years after December 31, 1973 are as follows:

	Bonds and debentures	Other secured liabilities	Total
1974 (after adjustment to current rate of exchange—Notes 1 (b) and 6)	\$ 5,994,500*	\$4,140,463*	\$10,134,963
1975	9,407,673*	1,646,415	11,054,088
1976	63,104,666*	1,507,059	64,611,725
1977	11,710,041	1,335,440	13,045,481
1978	23,858,650	273,372	24,132,022

*Net of purchases and cancellation of long term debt up to December 31, 1973.

8. MINORITY INTERESTS IN SUBSIDIARIES:

	December 31	
	1973	1972
Preference shareholders	\$31,841,550	\$31,841,550
Common shareholders	13,204,235	13,300,410
	<u>\$45,045,785</u>	<u>\$45,141,960</u>

During 1972 MacMillan Rothsay Limited, a partly-owned subsidiary, issued \$30,000,000 of 4% cumulative redeemable preference shares. As part of the arrangements for the issue, MacMillan Bloedel Limited and a subsidiary of Feldmühle, A.G., the two common shareholders of the company, undertook in the ratio of their respective common share interests to purchase these shares or otherwise effect their redemption by June 30, 1975 and to ensure that dividends on these shares would be declared and paid on their due dates. Subsequent to December 31, 1973 the company entered into an agreement to acquire the approximately 49% minority interest in the common shares of MacMillan Rothsay Limited held by the subsidiary of Feldmühle, A.G. and undertook the full commitment with respect to the \$30,000,000 of preference shares.

9. SHARE CAPITAL:

As at December 31, 1972 the authorized and outstanding 3% non-cumulative redeemable preference shares aggregated 777,729 shares and 624,948 shares respectively. On January 26, 1973 the company gave notice of its intention to redeem all remaining outstanding preference shares at their par value of \$1 each on February 28, 1973. These shares were then purchased for cancellation out of the proceeds of a demand debenture. Subsequently, a special resolution was passed which removed all reference to the 3% preference shares from the company's Memorandum. As a result, there were no authorized or outstanding 3% preference shares at December 31, 1973.

As in prior years, outstanding ordinary shares include share warrants which entitle the holders, without further financial consideration, to exchange the warrants for a like number of registered shares. As of December 31, 1973 the regulations governing share warrants of the company were rescinded and new regulations adopted, to conform to requirements of the new British Columbia Companies Act. Under the new regulations, holders of warrants are not members of the company, are not entitled to vote at shareholders' meetings, and are not, by right of holding the warrants, entitled to any dividends declared on the issued ordinary shares of the company after January 1, 1974. There were 342,847 share warrants outstanding at December 31, 1973 (1972—399,492 warrants).

10. STOCK OPTIONS:

Under the company's stock option plan, options for ordinary shares may be granted to key employees, exercisable by dates fixed by the Board of Directors, at share prices equal to at least 90% of the closing price on the Vancouver Stock Exchange on the last business day before the options were granted. No options were granted during the year. Options for 1,000 shares were exercised during the year and the shares issued at the option price of \$29.70 per share for a total cash consideration of \$29,700. The quoted market price of these ordinary shares at date of exercise was \$37.00 per share. As at December 31, 1973 further options were outstanding for 29,500 shares at \$29.70 per share, and these are exercisable on or before November 6, 1974.

11. COMMITMENTS:

The company and its subsidiaries are committed in respect of the following:

(a) Minimum lease rentals under non-cancellable leases having an initial term of more than one year and ship charter commitments (reduced by sublease rentals and subcharters of approximately \$4,800,000) as follows:

	Logging equipment leases	Other leases	Ship charters	Total
1974.....	\$1,198,155	\$ 2,332,747	\$ 51,198,578	\$ 54,729,480
1975.....	1,079,780	1,658,135	45,596,490	48,334,405
1976.....	1,004,325	1,123,836	11,472,602	13,600,763
1977.....	926,854	816,992	7,878,152	9,621,998
1978.....	884,629	659,306	4,750,677	6,294,612
1979-83.....	618,862	2,471,085	3,782,800	6,872,747
1984-88.....	—	1,656,167	1,075	1,657,242
1989-93.....	—	871,110	—	871,110
Subsequent to 1993.....	—	3,483,339	—	3,483,339
	<u>\$5,712,605</u>	<u>\$15,072,717</u>	<u>\$124,680,374</u>	<u>\$145,465,696</u>

The company's shipping subsidiary, Canadian Transport Company Limited, substantially increased its chartering activities in the latter part of 1973. Thus, the minimum annual commitments (including escalation costs to December 31, 1973) above are much greater than comparable figures would have been in prior years, and they are also much greater than related chartering expense for 1973. In the majority of cases, the ship charter commitments above include components to cover the costs of manning and other operating expenses (but not fuel) as well as bare boat and owners' profit components.

(b) The acquisition of timber in Alabama under long term cutting contracts requiring minimum annual payments (extending in some cases to the year 2033); payments of approximately \$1,885,000 are required in each of the next five years and in diminishing amounts thereafter.

12. EARNINGS STATEMENT SUPPLEMENTARY INFORMATION:

(a) Sales include the sales of products purchased from other manufacturers on which the margin of gross profit realized by the company is less than that realized on the sales of its own manufactured products.

(b) Costs and expenses include the following:

	Year ended December 31	
	1973	1972
Depreciation.....	\$41,576,757	\$39,266,783
Depletion.....	5,946,302	5,200,574
Amortization of logging roads.....	7,953,222	5,357,673
	<u>\$55,476,281</u>	<u>\$49,825,030</u>
Rental expense on leases of one month or more, and time charter* hire costs, including \$7,600,000 (1972 — \$3,450,000) being estimated manning and other operating costs, less sublease and subcharter revenue included with sales and other income in the statement of earnings.....	<u>\$23,520,997</u>	<u>\$11,940,864</u>

*Time charters represent all charters except single voyage spot charters.

(c) Selling, general and administrative expenses include remuneration paid to the directors and senior officers of the company aggregating \$1,840,558 (1972 — \$1,457,298 as restated on basis of requirements of new British Columbia Companies Act).

(d) Extraordinary items in 1972 comprised income tax reductions resulting from the application of losses carried forward for income tax purposes.

13. PENSION PLANS:

The company has a number of contributory and non-contributory pension plans, participation in which is available to substantially all of its employees after one or two years' continuous service. Additionally, the company has agreements with a number of its officers and executives (including some now retired) which call for payments to be made under certain conditions following retirement. Pension and retirement benefits are determined as a function of service and earnings. It is the company's policy to provide for the cost of pension and retirement benefits accrued through charges to earnings determined by periodic actuarial computations. The value of pension benefits for all plans and the estimated liability for unfunded agreements as of December 31, 1973 exceeded the total of the pension funds and the balance sheet accruals by approximately \$2,150,000, which amount is being provided for, through charges to earnings, over a period not exceeding five years. The total expense for the above plans and agreements amounted to \$4,904,442 for the year ended December 31, 1973 (1972 — \$4,157,248).

The company also contributes to a number of governmental pension plans, covering its employees in various countries. The pension expense of these plans amounted to \$3,824,311 for the year ended December 31, 1973 (1972 — \$2,538,279).

14. SUBSIDIARIES ACQUIRED:

During the year the company acquired all of the outstanding shares of Multiply Plywoods Limited and Canadian Gulf Lines, Inc. and certain of its affiliates. Both transactions have been accounted for by the purchase method. Multiply Plywoods Limited which manufactures poplar and birch plywood at its plant in Nipigon, Ontario was acquired for \$2,621,115 cash, and its operations have been consolidated from March 1, 1973.

14. SUBSIDIARIES ACQUIRED: (continued)

Canadian Gulf Lines, Inc. was acquired pursuant to an agreement dated July 11, 1973 whereby the company agreed to issue 315,000 ordinary shares (1.49% of ordinary shares outstanding at December 31, 1973) for an agreed consideration of \$9,213,750. The transaction was completed on October 12, 1973 and the company's operations have been consolidated from that date. Canadian Gulf Lines, Inc. whose corporate offices are located in Houston, Texas, specializes in the ocean transport of newsprint. The affiliates of Canadian Gulf Lines, Inc., were acquired as of December 1, 1973 for \$147,748 cash.

Summarized financial information relevant to these companies at dates of acquisition is as follows:

Working capital.....	\$1,705,165	
Investments and other assets.....	212,597	
Property, plant and equipment.....	5,183,747	
Intangible assets.....	171,046	\$ 7,272,555
Less:		
Long term debt.....	361,330	
Income tax allocations in respect of future years.....	499,766	
Minority interests.....	2,520	863,616
Net book value of assets of subsidiaries acquired.....		6,408,939
Add: Portion of purchase consideration attributed to—		
Property, plant and equipment.....	4,473,674	
Other intangible assets.....	1,100,000	5,573,674
Investments in subsidiaries acquired.....		11,982,613
Less: Working capital of subsidiaries as at dates of acquisition.....		1,705,165
Net investments in subsidiaries acquired.....		<u>\$10,277,448</u>

15. SUBSEQUENT EVENTS:

Subsequent to December 31, 1973 (in addition to the acquisition of minority shares in MacMillan Rothesay Limited — see Note 8) the company completed arrangements, at a total outlay of approximately \$16,000,000, to acquire a 40% interest in La Cellulose d'Aquitaine S.A., a pulp manufacturer with operations in France and Belgium, and to subscribe for additional common shares on a basis which would maintain the 40% interest. On February 18, 1974 the Board of Directors authorized additional long term debt financing subject to certain market conditions.

16. SUBSIDIARY COMPANIES:

Active	Active
CANADA	UNITED STATES
Canadian Transport Company Limited	Canadian Gulf Lines, Inc.
Canadian Transport (Europe) Limited	Canadian Gulf Line of Florida, Inc.
Forest Industries Flying Tankers Limited	Florida Lines, Limited
Forest Transport Ltd.	Lee Timber Products, Inc.
Kingcome Navigation Company Limited	MacMillan Bloedel (Alabama) Inc.
Kingsway Lumber Co. Limited	MacMillan Bloedel Containers Inc.
R. Laidlaw Lumber Co. Limited	MacMillan Bloedel Export Inc.
MacMillan Bloedel (Alberni) Limited	MacMillan Bloedel Inc.
MacMillan Bloedel Building Limited	MacMillan Bloedel (New York) Inc.
MacMillan Bloedel Building Materials (B.C.) Limited	MacMillan Bloedel Particleboard Inc.
MacMillan Bloedel Building Materials Limited	MacMillan Bloedel Sales Inc.
MacMillan Bloedel Building Materials (Supply) Ltd.	Powell River-Alberni Sales Corporation
MacMillan Bloedel Industries Limited	Star Terminal Company, Incorporated
MacMillan Bloedel Packaging Limited	States Navigation Corporation
MacMillan Bloedel Properties Limited	UNITED KINGDOM
MacMillan Bloedel (Quebec) Limited	Canadian Transport (Terminals) Limited
MacMillan Bloedel Research Limited	MacMillan Bloedel Containers Limited
MacMillan Bloedel (Saskatchewan) Limited	MacMillan Bloedel Meyer Limited
MacMillan Rothesay Limited	MacMillan Bloedel Meyer (Terminals) Limited
Martin Paper Bags Ltd.	MacMillan Bloedel Pulp and Paper Sales Limited
Multiply Plywoods Limited	OTHER
National Paper Box Limited	Altair Limited*
Rothesay Shipping Ltd.	Canadian Transport Company Pty. Limited
Vancouver Island Stevedoring Co. Ltd.	Island Risk Management Limited*
Vancouver Marine Engines Ltd.	MacMillan Bloedel Pty. Limited
West Coast Transport Company Limited	MacMillan Jardine (Japan) Limited
	MacMillan Jardine Limited
	MacMillan Jardine (Malaysia) Sdn. Bhd.
	MacMillan Jardine (South East Asia) Limited
	Mats Janson & Co. AB
	Swedish Gulf Line, AB

*November 30 year end for fiscal purposes.

16. SUBSIDIARY COMPANIES *(continued)*:

Inactive (including holding companies not carrying on active operations)

CANADA

Alberni Pacific Lumber Company Limited
Allied Paper Products Ltd.
Alpa Products Ltd.
Alsto Distributors (Calgary) Ltd.
Alsto Distributors Limited
B.N.P. Airways Limited
Burnaby Paperboard Ltd.
C. & G. Timberland Management Limited
C.M.L. Builders Supplies Limited
Canadian White Pine Co. Limited
Canal Lumber Co. Ltd.
Coast Research Associates Limited
E. L. Bruce Company, Limited
Elton Logging Company Limited
Hamilton Logging Ltd.
Harmac Ltd.
Island Paper Mills Limited
Kelley Spruce Ltd.
Laico Limited
MacMillan Bloedel (Alberta) Limited
MacMillan, Bloedel and Powell River (Edmonton) Limited
MacMillan Bloedel Enterprises Ltd.
MacMillan Bloedel Export Sales Ltd.
MacMillan Bloedel (Manitoba) Limited
MacMillan Bloedel (Ontario) Limited
MacMillan Bloedel Sales Limited
Northwest Bay Logging Company Limited
Northwest Cedar Products Limited
Powell River-Alberni Sales Limited
Powell River Co. Ltd.
Rothesay Paper Holdings Ltd.
Rothesay Paper Limited
Salmon River Logging Company Limited
Squamish Valley Timber Ltd.
The Shawnigan Lake Lumber Company Limited
Victoria Lumber Company Limited
Western Barkers Ltd.

Inactive (including holding companies not carrying on active operations)

UNITED STATES

MacMillan Bloedel Radio System, Inc.
MacMillan Bloedel Timberlands Inc.
MacMillan Bloedel (U.S.A.) Co.
The Alberni Paper Company, Inc.
The Hankins Container Company

UNITED KINGDOM

Cooks Corrugated Cases Limited
Hygrade Corrugated Cases Limited

OTHER

Canadian Maas River Investment N.V.*

*November 30 year end for fiscal purposes.

Operations, sales offices and distribution centres

LOGGING OPERATIONS, B.C.

Alliford Bay
Ash
Cameron
Chemainus
Cous
Cypre
Dinan Bay
Estevan
Eve River
Franklin River
Gilford Island
Iron River
Jervis Inlet
Juskatla
Kelsey Bay
Kennedy Lake
Kitimat
Knight Inlet
Menzies Bay
Misery Creek
North Broughton Island
Northwest Bay
Perketts Creek
Phillips Arm
Port Hardy
Powell Lake
St. Vincent Bay
Sechelt
Shawnigan
Skidegate
Sombrio Point
Squamish
Stillwater
Taylor
Theodosia
Turnour Island
Wilson Creek

CEDAR POLE YARD

New Westminster, B.C.

LUMBER

Chemainus, B.C.
Harmac, B.C.
New Westminster, B.C.
Pine Hill, Alabama
Port Alberni, B.C.
Powell River, B.C.
Vancouver, B.C.

PLYWOOD

Pine Hill, Alabama
Port Alberni, B.C.
Vancouver, B.C.

WOOD PRODUCT SPECIALTIES

Hudson Bay, Sask.
Aspenite Panelboard
Port Alberni, B.C.
Shingles
Toronto, Ontario
Mouldings
Roof Trusses
Vancouver, B.C.
Particleboard
Pres-to-logs
Specialty Boards

NEWSPRINT

Port Alberni, B.C.
Powell River, B.C.
Saint John, N.B.

PULP

Harmac, B.C.
Bleached Sulphate
Semi-bleached Sulphate

Port Alberni, B.C.
Unbleached Sulphate
Powell River, B.C.
Semi-bleached Sulphate

OTHER PAPER AND BOARD PRODUCTS

New Westminster, B.C.
Fine Paper
Pine Hill, Alabama
Linerboard
Port Alberni, B.C.
Linerboard

CORRUGATED CONTAINER PLANTS

CANADA

Winnipeg, Man.
Regina, Sask.
Edmonton, Alta.
Calgary, Alta.
New Westminster, B.C.

UNITED KINGDOM

Hatfield, Herts.
Nelson, Lancs.
Southall, Middlesex
West Auckland, Co. Durham
Weston-super-Mare, Somerset

UNITED STATES

Elmira, N.Y.
Jersey City, N.J.
Union, N.J.
Odenton, Md.
Cleveland, Ohio
Centerville, Ohio
Marion, Ind.
Chicago, Ill.
Magnolia, Miss.
Little Rock, Ark.
Houston, Texas
Los Angeles, Calif.

CARTON PLANT

Burnaby, B.C.
Folding and Rigid Cartons
Milk Cartons
Specialty Cartons

BAG AND SPECIALTY PLANT

Burnaby, B.C.
Kraft Paper Bags
Notion and Millinery Bags
Wrapping Papers

SALES OFFICES AND DISTRIBUTION CENTRES

Building Materials

CANADA

Eastern
Dartmouth, N.S.
Drummondville, Que.
Montreal, Que.
Quebec City, Que.
Rimouski, Que.
Belleville, Ont.
Brantford, Ont.
Chatham, Ont.
Fonthill, Ont.
Kitchener, Ont.
London, Ont.
Orillia, Ont.
Ottawa, Ont.
Owen Sound, Ont.
Sudbury, Ont.
Timmins, Ont.
Toronto, Ont.
Windsor, Ont.

R. Laidlaw Lumber Co. Limited
Noranda, Que.
London, Ont.

North Bay, Ont.
Ottawa, Ont.
Sault Ste. Marie, Ont.

Kingsway Lumber Co. Limited
Toronto, Ont.

Western

Winnipeg, Man.
Regina, Sask.
Saskatoon, Sask.
Edmonton, Alta.
Calgary, Alta.
Lethbridge, Alta.
Vancouver, B.C.
Chemainus, B.C.
Port Alberni, B.C.

UNITED STATES

Stamford, Conn.
Birmingham, Ala.
Honolulu, Hawaii

Blanchard Lumber Company

Walpole, Mass.
Rensselaer, N.Y.
Wayne, N.J.
Camden, N.J.
Baltimore, Md.
Fort Lauderdale, Fla.
Jacksonville, Fla.
West Hartford, Conn.
Atlanta, Ga.
Portsmouth, Va.
Houston, Texas
Portland, Ore.

Directors

- R. W. BONNER Q.C.** *Vancouver, British Columbia*
Chairman of the Board, MacMillan Bloedel Limited
- ANSON BROOKS** *Seattle, Washington, U.S.A.*
President, Powell River-Alberni Sales Corporation
- A. B. CHRISTOPHER** *Vancouver, British Columbia*
President, Montrose Development Ltd.
- THE HONOURABLE J. V. CLYNE C.C.** *Vancouver, British Columbia*
Retired — Former Chairman of the Board,
MacMillan Bloedel Limited
- G. B. CURRIE** *Vancouver, British Columbia*
Executive Vice-President, Finance and Administration,
MacMillan Bloedel Limited
- L. G. HARRIS** *Vancouver, British Columbia*
Executive Vice-President, International,
MacMillan Bloedel Limited
- J. O. HEMMINGSEN** *Vancouver, British Columbia*
Executive Vice-President, Natural Resources,
MacMillan Bloedel Limited
- G. H. D. HOBBS** *Vancouver, British Columbia*
President, Cominco Ltd.
- J. N. HYLAND** *Vancouver, British Columbia*
President, Granduc Mines, Limited
- N. J. MCKINNON** *Toronto, Ontario*
Chairman, Canadian Imperial Bank of Commerce
- J. M. MEYER C.B.E.** *London, England*
Chairman and Managing Director, Montague L. Meyer Limited
- H. T. MITCHELL** *Vancouver, British Columbia*
President, Mitchell Press Limited
- J. E. RICHARDSON** *Vancouver, British Columbia*
Chairman of the Board, President and Chief Executive Officer,
British Columbia Telephone Company
- I. D. SINCLAIR Q.C.** *Montreal, Quebec*
Chairman and Chief Executive Officer,
Canadian Pacific Limited
- G. T. SOUTHAM** *Vancouver, British Columbia*
President, Pioneer Envelopes Ltd.
- J. A. TAYLOR** *London, Ontario*
Chairman, Canada Trust
- D. W. TIMMIS** *Vancouver, British Columbia*
President and Chief Executive Officer,
MacMillan Bloedel Limited
- FREDERICK WILSON** *Spokane, Washington, U.S.A.*
Investment Counsel
- C. B. WRIGHT** *Seattle, Washington, U.S.A.*
President, Pentagram Corporation

Honorary Directors

- H. R. MACMILLAN** *Vancouver, British Columbia*
- W. J. VANDUSEN** *Vancouver, British Columbia*

Executive Committee

- R. W. BONNER** *(Chairman)*
- G. B. CURRIE**
- G. H. D. HOBBS**
- J. N. HYLAND**
- J. E. RICHARDSON**
- D. W. TIMMIS**
- C. B. WRIGHT**

Officers

- R. W. BONNER Q.C.** *Chairman of the Board*
- D. W. TIMMIS** *President and Chief Executive Officer*
- G. B. CURRIE** *Executive Vice-President,
Finance and Administration*
- L. G. HARRIS** *Executive Vice-President, International*
- J. O. HEMMINGSEN** *Executive Vice-President, Natural Resources*
- J. R. FORREST** *Group Vice-President,
Forestry and Building Materials*
- B. I. HOWE** *Group Vice-President, Pulp and Paper*
- H. V. TOWNSEND** *Group Vice-President, Packaging*
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- K. G. BOYD** *Vice-President, Wood Supply*
- C. G. CHAMBERS** *Vice-President, Banking and Investment*
- R. G. CHESTNUT** *Vice-President, Transportation*
- H. R. CHISHOLM** *Vice-President, Raw Material Planning
and Allocation*
- C. M. DEE** *Vice-President and General Manager, Panelboards*
- P. M. DOWNES** *Vice-President, Corporate Communications*
- R. L. GILLEN** *Vice-President, Strategic Planning and Development*
- J. H. LAWSON** *Vice-President and General Manager,
Lumber and Shingles*
- A. C. McGOUGAN** *Vice-President, Pulp and Paper Group Trading*
- D. H. PARKINSON** *Vice-President, Finance*
- J. S. ROGERS** *Vice-President, Manufacturing, Newsprint*
- R. V. SMITH** *Vice-President and General Manager, Newsprint*
- G. J. TOWILL** *Vice-President, Industrial Relations*
- D. B. TURNER** *Vice-President, Logging*
- DR. L. A. COX** *Director, Scientific and Technological Assessment*
- T. P. BOYLE** *Corporate Controller*
- J. G. DICKINSON** *Director, Strategic Planning and Development*
- D. H. FRICKER Q.C.** *Corporate Solicitor*
- E. G. LEGG** *Treasurer*
- G. L. AINSCOUGH** *Chief Forester*
- J. G. C. CUNNINGHAM** *Assistant Secretary*
- R. D. MACFAYDEN** *Assistant Secretary*

Registrars and Transfer Agents

- THE ROYAL TRUST COMPANY** *Vancouver*
- THE CANADA TRUST COMPANY**
Calgary, Regina, Winnipeg, Toronto, Montreal
- THE CHASE MANHATTAN BANK** *New York*

Auditors

- PRICE WATERHOUSE & CO.** *Vancouver*

Audit Committee

- R. W. BONNER** *(Chairman)*
- G. H. D. HOBBS**
- J. N. HYLAND**
- J. E. RICHARDSON**
- C. B. WRIGHT**

This report is printed on paper manufactured by Celupal, S.A., an associated company of MacMillan Bloedel Limited in Algeciras, Spain.



ITEMS OF INTEREST

AR07

Construction of a new waferboard plant in the Thunder Bay area is planned to start this month. It will be the Company's second major manufacturing venture in Ontario. The new plant will have an annual capacity of 100 million square feet of poplar-birch panels ($\frac{3}{8}$ inch thick). The product will be marketed primarily in Eastern Canada under the registered trade name "ASPENITE" as is the same product manufactured in the Company's plant at Hudson Bay, Saskatchewan. Shipment to market will be mostly by truck and rail with some volume moving by ship through the Great Lakes system. Cost of the plant will be \$9.4 million and it is scheduled to go into production in the fall of 1974. This plant will provide employment for about 200 people in manufacturing and related logging activities.

* * *

The Company's Alabama manufacturing complex at Pine Hill in Wilcox County, which consists of linerboard, lumber and plywood mills, is being expanded by the addition of a \$10.5 million particle-board plant. Construction has begun and production is scheduled to begin in June of 1974. This new plant will be one of the largest of its kind in the United States with an annual capacity of 100 million square feet ($\frac{3}{4}$ -inch basis). Raw material in the form of sawdust and shavings gathered from 13 sawmills in south and central Alabama will be used to produce 4' x 8' panels for floor underlayment and industrial construction.

* * *

In Malaysia the Company has expanded beyond its logging interests to enter into manufacturing with the official opening in June of a new plywood and blockboard plant at Pekan in Pahang State. MacMillan Bloedel participates in this growing operation through MacMillan Jardine's 30 percent interest in Mentiga Forest Products Sdn. Bhd. The new plant will be able to produce 70 million square feet of plywood ($\frac{1}{4}$ -inch basis) and 1.1 million square feet (1-inch basis) of blockboard a year. Blockboard is a panel consisting of a core of wood blocks with a sheet of veneer on each side.



**MacMillan
Bloedel Limited**

and Subsidiary Companies

**Report to the Shareholders
for the Six Months
Ended June 30, 1973**

CONSOLIDATED STATEMENT OF EARNINGS

SIX MONTHS ENDED JUNE 30 (in millions of dollars)
1973 1972 1971 1970

Sales and Other Income				
Sales of Products and Services	\$604.1	\$444.1	\$358.5	\$343.1
Other Income	1.8	1.5	.4	2.2
	<u>\$605.9</u>	<u>\$445.6</u>	<u>\$358.9</u>	<u>\$345.3</u>
Earnings before Undernoted Items	<u>\$122.0</u>	<u>\$ 71.1</u>	<u>\$ 49.6</u>	<u>\$ 58.9</u>
Depreciation, Depletion and Amortization	26.9	24.3	24.4	23.2
Interest on Borrowed Money	7.6	9.0	9.3	9.5
	<u>34.5</u>	<u>33.3</u>	<u>33.7</u>	<u>32.7</u>
Earnings before Income Taxes and Other Undernoted Items	87.5	37.8	15.9	26.2
Income Taxes:				
Current	36.2	18.8	9.5	14.4
Future Years	3.0	.6	(.8)	.7
	<u>39.2</u>	<u>19.4</u>	<u>8.7</u>	<u>15.1</u>
Earnings before the Following Items	48.3	18.4	7.2	11.1
Equity in Earnings of Partly-owned Companies	3.3	1.5	.6	.8
Minority Interests in Subsidiaries (net)	(.8)	.1	1.5	(.6)
Earnings before Extraordinary Items	50.8	20.0	9.3	11.3
Extraordinary Items	—	1.5	(.5)	—
Net Earnings for the Six Months	<u>\$ 50.8</u>	<u>\$ 21.5</u>	<u>\$ 8.8</u>	<u>\$ 11.3</u>
Net Earnings per Ordinary Share (dollars)				
Earnings before Extraordinary Items	\$ 2.43	\$.96	\$.44	\$.54
Extraordinary Items	—	.07	(.02)	—
Net Earnings for the Six Months	<u>\$ 2.43</u>	<u>\$ 1.03</u>	<u>\$.42</u>	<u>\$.54</u>

Note: Certain figures of prior years have been restated to reflect the equity in earnings of partly-owned companies.

Unaudited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

SIX MONTHS ENDED JUNE 30 (in millions of dollars)
1973 1972 1971 1970

Source of Working Capital				
Net Earnings	\$ 50.8	\$ 21.5	\$ 8.8	\$ 11.3
Non-cash Charges (Credits)				
Depreciation, Depletion and Amortization	26.9	24.3	24.4	23.2
Future Years' Income Taxes	3.0	.6	(.8)	.7
Equity in Earnings of Partly-owned Companies	(3.3)	(1.5)	(.6)	(.8)
Minority Interests in Subsidiaries (net) .....	.8	(.1)	(1.5)	.6
Realization of Funds allocated for Capital Purposes	—	—	—	1.0
Dividends from Partly-owned Companies .....	.8	.9	.9	.7
Proceeds from Debentures	—	—	30.0	—
Equity Provided by Minority Interests (net)	(.8)	30.9	1.7	(.4)
	<u>78.2</u>	<u>76.6</u>	<u>62.9</u>	<u>36.3</u>
Application of Working Capital				
Net Additions to Property, Plant and Equipment	31.2	39.4	12.7	20.1
Investments and Other Assets .....	.5	.3	2.8	1.5
Dividends	10.4	8.4	5.2	10.4
Redemption of Preferred Shares .....	.6	—	—	—
Payments of, and Current Provision for, Long-Term Debt	8.1	6.6	8.6	5.6
	<u>50.8</u>	<u>54.7</u>	<u>29.3</u>	<u>37.6</u>
Increase (Decrease) in Working Capital	27.4	21.9	33.6	(1.3)
Working Capital at Beginning of Period	162.0	137.1	93.7	107.3
Working Capital at End of Period	<u>\$189.4</u>	<u>\$159.0</u>	<u>\$127.3</u>	<u>\$106.0</u>

Note: Certain figures of prior years have been restated to reflect the equity in earnings of partly-owned companies.

Unaudited

TO THE SHAREHOLDERS

The Company's sales and other income for the six months ended June 30, 1973 amounted to \$605,931,600 compared with \$445,566,200 for the first half of 1972. Net earnings for the same period increased from \$21,539,962 (\$1.03 per share) in 1972 to \$50,774,962 (\$2.43 per share) in 1973.

The increase in net earnings for the first six months of 1973 arose principally from the following factors:

- Much improved markets for all the Company's products — especially lumber and plywood.
- Favourable movement of the Canadian dollar relative to the United States dollar in the first half of 1973, compared to the first half of 1972, gave rise to a further improvement in net sales revenues.
- Corporate income tax liability decreased by approximately \$3,800,000 due to the reduction in corporate tax rate applied to income of Canadian manufacturing and processing operations. The period's results also reflect the utilization of \$2,350,000 of investment tax credits by the Alabama operations of the Company. \$2,500,000 of such investment tax credits remains available for use until the end of 1978.

Earnings of companies in which MacMillan Bloedel has a major interest (but not over 50%) have been recorded in the accompanying consolidated statement of earnings on the equity basis of accounting in accordance with current accounting practice. As a result, MacMillan Bloedel's share of its associated companies' profits is included in earnings whether or not such profits are distributed by way of dividends. In prior years, only the distributed portion of the profits of such companies was recorded.

The level of earnings which the Company has now reached indicates the ability of MacMillan Bloedel to participate rapidly and effectively in economic upturns. However, this period of improved profitability must be viewed in historical perspective and set alongside those periods of imbalance in supply and

CONSOLIDATED STATEMENT OF EARNINGS

Sales and Other Income	
Sales of Products and Services	
Other Income	
Earnings before Undernoted Items	
Depreciation, Depletion and Amortization	
Interest on Borrowed Money	
Earnings before Income Taxes and Other Undernoted Items	
Income Taxes:	
Current	
Future Years	
Earnings before the Following Items	
Equity in Earnings of Partly-owned Companies	
Minority Interests in Subsidiaries (net)	
Earnings before Extraordinary Items	
Extraordinary Items	
Net Earnings for the Six Months	
Net Earnings per Ordinary Share (dollars)	
Earnings before Extraordinary Items	
Extraordinary Items	
Net Earnings for the Six Months	

Note: Certain figures of prior years have been restated to reflect the equity in earnings of partly-owned companies.

Unaudited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

Source of Working Capital	
Net Earnings	
Non-cash Charges (Credits)	
Depreciation, Depletion and Amortization	
Future Years' Income Taxes	
Equity in Earnings of Partly-owned Companies	
Minority Interests in Subsidiaries (net)	
Realization of Funds allocated for Capital Purposes	
Dividends from Partly-owned Companies	
Proceeds from Debentures	
Equity Provided by Minority Interests (net)	
Application of Working Capital	
Net Additions to Property, Plant and Equipment	
Investments and Other Assets	
Dividends	
Redemption of Preferred Shares	
Payments of, and Current Provision for, Long-Term Debt	

Increase (Decrease) in Working Capital	
Working Capital at Beginning of Period	
Working Capital at End of Period	

Note: Certain figures of prior years have been restated to reflect the equity in earnings of partly-owned companies.

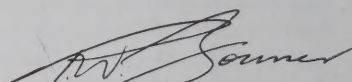
Unaudited

demand, and very low returns on capital which have been widespread in this industry during recent years. But for the balance now being achieved, the future of the industry as a provider of increasing employment and as a growing contributor to the national economy would be in doubt.

Continuation of the present favourable business climate depends in large measure on the ability of the United States and Canada to control disturbingly high rates of inflation and particularly on the ability of the United States to manage and maintain a desirable rate of economic growth without unduly impairing consumer credit and confidence.

Although it is very difficult to anticipate economic developments during a period of strenuous efforts by various governments to influence national economies, some slackening in demand for lumber and plywood is expected during the balance of the year, but pulp and paper, linerboard and packaging product markets are likely to remain very strong in the immediate future. Overall, therefore, it is reasonable to expect that 1973 will be a year of notable recovery for MacMillan Bloedel.

Vancouver, Canada
August 6, 1973



Chairman of the Board